

RAILWAYS ACT, 1921

PROCEEDINGS OF THE RAILWAY
RATES TRIBUNAL.

SCHEDULES OF STANDARD CHARGES.

THURSDAY, MAY 29TH, 1924.

FOURTH DAY.



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PROCEEDINGS OF THE RAILWAY RATES TRIBUNAL.

THURSDAY, MAY 29TH, 1924.

PRESENT :

W. B. CLODE, Esq., K.C. (*President*).

W. A. JEPSON, Esq.

GEO. C. LOCKET, Esq., J.P.

FOURTH DAY.

THE SOLICITOR-GENERAL (SIR HENRY SLESSER, K.C.) and Mr. W. BOWSTEAD (instructed by the Treasury Solicitor) appeared on behalf of the Minister of Transport.

THE LORD ADVOCATE (THE RT. HON. H. P. MACMILLAN, K.C.), MR. A. C. CLAUSON, K.C., MR. BRUCE THOMAS and MR. ALFRED TYLOR (instructed by the Honorary Solicitors) appeared for the Railway Companies' Association.

THE HON. R. STAFFORD CRIPPS appeared for the London County Council.

MR. F. G. THOMAS, K.C., and MR. JACQUES ABADY (instructed by Sir Thomas R. Ratcliffe-Ellis) appeared for the Mining Association of Great Britain.

SIR DOUGLAS HOGG, K.C., M.P., and MR. F. J. WROTTESELEY (instructed by Messrs. Vizard, Oldham, Crowder and Cash) appeared for the Traders' Co-ordinating Committee; The National Association of Railway Travellers; and the following local authorities: The boroughs of Leeds, Cardiff, Oldham, St. Helens, West Ham, East Ham, Gravesend, Richmond, Dartford, Southport, Watford, Leamington Spa, Morecambe, and Rothsay; and the Urban District Councils of: Mitcham, Heston and Isleworth, Teddington, Wallington, Surbiton, Harrow-on-the-Hill, Prestwich, Epsom, Carshalton, Barnet, Hampton, Bexley Heath, and Staines.

MR. HERBERT MORRISON appeared for the National Joint Council of the Trade Union Congress and the Labour Party; and for the London Labour Party.

MR. W. G. R. BOYS and MR. HUGH SHAYLER appeared for the Civil Service Confederation.

MR. S. CARLILE DAVIS appeared for the Plymouth Incorporated Mercantile Association.

MR. GEO. DEW, J.P., L.C.C., appeared for the National Association for the Promotion of Cheap Transit.

MR. JACQUES ABADY (instructed by Messrs. Kenesholes & Prosser, Aberdare) appeared for the Cardiff Collieries, Limited.

MR. A. MOON appeared for the Midland Association of Blast Furnace Owners.

MR. F. C. BORER represented Messrs. Harrods Staff Council.

MR. EDWIN CLEMENTS (instructed by Messrs. Neish, Howell & Haldane) appeared to watch the proceedings on behalf of various Objectors to the Schedules of Standard Charges.

MR. J. H. WORRALL appeared for the National Anti-Profitsteering Society.

MR. JOHN QUREY, recalled.

Cross-examination by MR. F. G. THOMAS continued.

969. When we broke off last night I had been asking you one or two questions with regard to the point of comparing like with like as between 1913 and future years, and you quoted to me an instance which I think you took from the Glasgow and South Western accounts, where, if readjustment was necessary, there would be, in your view, something to be written back into revenue rather than written out of it?—Yes. The outlay on complete renewals in 1913 was more than a normal year's charge.

970. You mean that the charge against revenue included the purchase of those new locomotives to which you alluded, and which were included in Abstract B.1?—Yes.

971. There is just one figure on that which I should like you to explain. I dare say it is quite easily explained, but it rather puzzled me when I was looking at it last night. Will you just look at the Glasgow and South Western accounts, which are bound up in your big Blue Book, Account No. 9, which is the Appropriation Account, on page 108?—Have you got that account before you?—I have.

972. You see there brought into the net income which is available for distribution a sum of £20,000, appropriation from reserve, new locomotives, Abstract B.1?—Yes.

973. Well, when I turn to Abstract B.1 I do not find any figure there, and, in fact, that particular Abstract is not dealt with, is it, on the basis of reserve; it is not one of those companies which were programme companies?—No; but the directors recognised that there was an excessive charge for

renewal of locomotives, and so they brought in from their general reserve fund the sum of £20,000 in order to pay a satisfactory dividend, but in our statement of Standard Revenue we have not included that £20,000, because it did not belong to the year 1913.

974. That is the £20,000 which should be brought in from some other reserve?—Brought in from general reserves provided in previous years.

975. It is quite true, of course. I think the figure you put to me yesterday was that taking the renewals they were on a basis of 20 years?—20 years, yes.

976. Now if I look at the Furness Company, that was another one of the companies which were amalgamated, there I see it works out at 33 years, and when I look at the smaller companies there does not seem to be any provision at all—Maryport and Carlisle?—The Furness Company, of course, is a smaller company than the Glasgow and South Western. The Glasgow and South Western had 521 engines. The Furness Company had only 132, and the number of locomotives in the smaller lines would be smaller.

977. Of course, in a matter of this kind, where you are applying any opportunity of readjustment, you would not expect that all the items would be upon one side of the account; I mean obviously there would be some items on one side and some items on the other?—I have never suggested they were all on one side.

978. And it would not be difficult to find items in going through this account which would be on the other side of the account?—I quite agree.

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Mr. JOHN QUIREY.

[Continued.]

Mr. Jepson: I think all Mr. Quirey said was this, that if the accounts of 1913 are to be reopened there would have to be adjustments made, because the point in connection with the Glasgow and South Western was this, that having expended so much money and debited one year, 1913, the net revenue for that year left upon which the Government payment is made, and which is to form part of the basis for the Standard Revenue, is much less than it would have been if this expenditure by the Glasgow and South Western in 1913 had been spread over a number of years as had been done by several companies; that is provided partly out of depreciation fund.

Mr. F. G. Thomas: I quite agree, Mr. Jepson, in this particular instance it would be subject to that comment. There are other instances—take the case of these other lines which made no provision—where the comment would be the other way. It is a matter of adjustment, and I think I should be in agreement both with you, Sir, and with Mr. Quirey that all the adjustments would not be on one side of the account, obviously.

Witness: And, besides, the Furness renewal on a 33 years' life for locomotives is not subnormal. Our provision to-day is on the basis of 40 years life.

979. Now take the Highland, for instance. That was another substantial company, was not it; that was a programme company, was not it? At least, it was a programme company for locomotives and coaching vehicles, but apparently it was not a programme company for wagons?—Not for wagons.

980. And there, I see, it owned in 1913 2,541 wagons, and the wagons renewed were one?—One completely renewed, but 39 partially renewed.

981. But even there you would agree that that is an illustration on the other side of the account?—Quite. You cannot boil down the renewal provisions of about 29 constituent and subsidiary companies into four without making changes both ways.

982. Mr. Jepson: How many wagons had the Highland Company?—2,541.

983. Of all kinds. That is in Statement E?—Yes. A fair renewal would be about 85.

Mr. F. G. Thomas: I think I may pass now from that point—

984. Mr. Jepson: Before you do, I should like to ask the witness a general question. (To the Witness): Can you tell me this; 1913 was a very good year for the railway—one of the best?—That is what I wanted to bring out in connection with the Glasgow and South Western. 1913 was a good year, and the opportunity was taken to spend as much as could conveniently be spent.

985. Have you any idea—could you give us a general opinion—as to what would be the policy of railway companies generally in a good year such as 1913 in dealing with things which they had an opportunity of either charging to capital or charging to revenue?—They would not restrict their charges to revenue in a good year. The opportunity would be taken to charge as much as could possibly be charged.

986. And you would regard that as sound finance from an accountant's point of view?—Oh, quite.

987. But the effect of it on the net revenue would be to keep it down—to bring down net revenue which, from the considerations which we have before us, would be an advantage to the traders and a corresponding disadvantage to the railway companies. Is that sound?—That is the position as regards the railway companies.

988. One other question I should like to ask you. I do not think it has come out, either in examination or cross-examination. It has been stated, and it has been proved, that certain adjustments that you made as between 1913 net income and 1913 net revenue that you have got were admitted by the Government in their payments during the war period; for instance, the 4 per cent. was admitted by the Government as an addition to the net income shown in the accounts; the £20,000 additional payment to the Southern Company in respect of mails was admitted; but I do not think it has come out anywhere that the

amounts which you deducted to provide the net revenue as compared with net income—that is, debenture interest, and so on—was that also admitted by the Government?—The Government were not concerned with that part of the account. You will remember they only were concerned with the first seven items in Account No. 8; that is, the railway working and ancillary businesses down to and including the hotels.

989. Then in compiling your accounts for submission to the Government for payment on the basis of the net revenue of 1913, did you not get any allowance in respect of those deductions that you have made from the net income account?—No, because the account of the Government stopped at what we call "the line," and if you will take the London and North Western Account in our book, Account No. 8, I can perhaps explain it.

990. President: Will you give me the page, please?—It is on page 6 of the large book. In the net receipts column the total of the first six items is £5,896,895; that is known as the total to the line. Now, that was the figure which the Government guaranteed. They were not concerned with the Miscellaneous Receipts net, nor yet the charges against net income in Account No. 9. It was to that figure of £5,896,895 that the addition was made for the 4 per cent. suspense.

991. Mr. Jepson: So that £5,896,895 does include the amounts which you have left in in your calculation on page 3 of "R.T.3a," page 4, Interest on Debenture Stocks, Dividends on Rent Charges, and Interest on Loans, which are all included in that £5,896,895?—That is so.

992. So that in making this deduction on page 4 you are only bringing the accounts into line with what the Government recognised during the war period?—Well, we are bringing them into line with what the Government control years' accounts were.

993. Mr. F. G. Thomas: Perhaps there was one other figure I ought to have put to you on the Glasgow and South Western Accounts. That was in the case of wagons. You have given the figure for locomotives; that was the life of 20 years. In wagons there were 18,961, and wagons renewed, 312; so that the life on the basis of the 1913 renewals would be 60 years for wagons?—That is right. Of course, some of that may have been made good by the heavy repairs item.

994. It may. Now, I wanted to ask you one or two questions on the question of the non-cancelled investments. You will remember the point. Now, as regards the cancelled investments, I think we are quite at one. The adjustment has been made, and no point really arises upon that; but as regards the investments in the company's own stocks, which have not been cancelled, I think we are in agreement on this point—that if those stocks could be subsequently sold the money raised by reason of that sale and out of that sale would not be treated as money provided?—If applied for capital expenditure.

995. Now I just want to be clear about this. If these were investments which were reflected in the capital account—that is to say, where a corresponding amount of capital had been raised to effect them—then, of course, that would be in the nature of a definite capital item—do you follow what is in my mind? I mean there would be two classes of investment of this kind; there would be some investments in respect of which capital had been raised to make the investment, and other investments in respect of which no capital had been definitely raised, but which had been made out of the company's general resources?—The investments would consist of those that are charged in the company's capital account, and others that appear in the company's balance sheet as not charged as capital expenditure.

996. I follow?—When I spoke in reply to your first question I had in mind those appearing in the balance sheet.

997. And not represented by a capital item?—Not charged as capital expenditure.

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Mr. JOHN QUIREY.

[Continued.]

998. That, of course, might represent an investment of free reserve?—Yes, but I thought I made it clear that my view on this question arises from the fact that those transactions existed in 1913. If they were made out of free reserves they must have been made out of 1913 free reserves.

999. Where are those items taken in—they are taken in at a certain figure of value in the balance sheet. Would they be taken in at cost, or would they be taken in at the market value of the security?—At cost, in my experience.

1000. It might very well be that when they came to be realised there might be a considerable margin of profit?—There might be.

1001. Would you regard that profit as in exactly the same category as the amount at which those securities stood in the balance sheet?—No.

1002. How would you regard it?—I would regard it as a free reserve of the current period.

1003. You would regard that as a distributable reserve?—I would.

1004. Although that accretion in value might very well have occurred in 1913?—It could not have occurred in 1913 if you did not sell the stock until now.

1005. No; but the stock of the joint undertaking, or the undertaking—that would have existed at that time?—You mean if the item in the balance sheet had been revised in view of the market price in 1913?

1006. Yes?—Well, it is not our practice to do it.

1007. This is not an academic point, is it—I do not think it applies to your company?—It will not arise in my company at all.

1008. No, not in your company; but I do not know whether you know that there is one of the companies which has a very large item of profit as a reserve from the sale of its own stocks?—I do not know.

1009. Well, I will leave that until we come to the company in question. Now that profit, you say, would go as an addition to your free reserves if they were realised?—Yes.

1010. That brings me to the other matter upon which I wanted to put to you a few questions, and that was with regard to the nature of these free reserves. Looking at your 1923 accounts, your reserves, of course, appear in Table 18?—That is so.

1011. I want you just to help me for a minute or two with regard to the figures that appear upon that table.

Mr. Clauson: What year is this?

1012. *Mr. F. G. Thomas:* The last year—1923. It is page 18 of the Accounts, and Table 18. Now that sets out the various funds and reserve accounts which figures on the liabilities side of your balance sheet?—Yes.

1013. And what I want you to indicate to me is, which of those you regard as your free reserves?—The item General Reserve Fund, together with certain amounts in the item Miscellaneous Accounts, a little higher up on the same side of the balance sheet.

1014. I see; and are we to find the whole of the free reserves in those two items?—In my case, yes.

1015. It would be all in Miscellaneous Accounts; it would not be in Accounts Payable or Liabilities Provided?—Oh, no.

1016. Now in this table which you put in yesterday giving your free reserves, you see there is a figure of £15,900,000 in the case of your company, which represents the increase in free reserves since 1913?—Yes.

1017. Therefore, that is not a total figure of your free reserves. The total figure would be £15,900,000 plus what they were in 1913?—Yes.

1018. I do not want to trouble you if it is not available at the moment; what was the figure in 1913?—It was under £2,000,000.

1019. So that approximately, therefore, the free reserves would be a figure of somewhere in the neighbourhood of £18,000,000?—Yes.

1020. Now when I look at your general reserve fund, I only find there a figure of about twelve and a half millions?—Yes, that is right.

1021. And therefore there is five and a half millions somewhere else, and I wanted you to help me to find it?—It is in the item of £26,647,191, Miscellaneous Account.

1022. So, with the exception of about £1,000,000, the whole of that is really a reserve?—Yes, it consists largely of the amount appropriated by the Directors from the Government compensation under Section 11 of the Act of 1921 as a reserve for contingencies.

1023. Now that figure of £15,900,000, which is made up in the way you have indicated, is the figure which, according to the view which I understand you have adopted, represents a profit to the company, an undistributed profit which the company would be entitled at their discretion to distribute to-morrow to the shareholders?—To distribute as dividend, yes.

1024. I think my learned friend the Lord Advocate used the expression that it was a windfall to the traders—that that money happened to remain at the moment in the coffers of the company and earning interest which would go as part of the other sources of income, which would go to the benefit of rates?—Yes.

1025. Now as you have pointed out, that amount of free reserves, which figure is a very modest figure, as we agree, in 1913, has been obtained largely as a result of the claims of the company for compensation from the Government?—In our case to the extent of one half.

1026. Those were claims for compensation, were they not, from the Government?—I cannot give you information as to how the £60,000,000 was made up. It was a settlement of all claims under the Act of 1871.

1027. You allude to it here "including Government compensation," and it has been called in your accounts the Government Compensation Fund?—Yes; but this is not the full Government Compensation Fund; it is the portion of the Government Compensation Fund not allocated or appropriated to other funds which we will call earmarked funds.

1028. Quite. In the case of your company, unlike some of the others, you have completely distributed the Government Compensation Fund over other funds?—Yes; over the balance-sheet items.

1029. It no longer appears as an item in the balance sheet?—Yes, but the only other company that showed the item as a separate item in the balance-sheet is the London and North-Eastern.

1030. You are quite right; I knew there was an exception. Three have distributed the fund, and in one case the fund still remains, at a lower figure, of course?—May I add that for the purpose of this statement the London and North-Eastern have appropriated part of the Government compensation to the earmarked funds, like the other companies.

1031. What I was putting to you, and I think I am right, is that in the case of your company that fund no longer figures as a separate item in your balance-sheet?—That is quite right.

1032. I am dealing with your company at the moment. Now, if that compensation which you received from the Government was in respect of losses which you would have sustained if you had not been compensated—I think that is the general meaning of compensation, is not it?—the money which was obtained represented a diminution of the value of your assets due in the main, I agree, to the lower standard of maintenance which you had been compelled to adopt owing to the exigencies of the war, and to that extent the undertaking was handed over by the Government in an inferior state to that in which they took it over; that was the claim, was not it?—We have recognised that by appropriating part of the Government compensation to make it good.

1033. To the extent, at any rate, that your undertaking was handed over by the Government in a worse state than that in which they took it over there would have been a loss of value during the intervening period which was not a profit, but which was an actual diminution in capital value?—The diminution in capital value is met by the amount of the depreciation fund.

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MR. JOHN QUIREY.

[Continued.]

1034. Only to remind you—I am not going to trouble you with any points of construction, or anything of that sort—under the Ministry of Transport Act you know that when the Government handed back the railways to the companies they were to compensate them for any loss of value, and if there was an increase of value they were to receive it back from the companies?—Yes, there were items like that in the Act; but the settlement was made for £60,000,000.

1035. Let me put it to you in this way. What you say is that you have appropriated a certain part of this fund to definite funds which are not available now to be dealt with as part of the income of the company?—Yes.

1036. Other parts of the funds you have appropriated in general reserve and free reserve?—Reserve for contingencies.

1037. If there is in the part which you have appropriated to free reserve provision for loss of value, due to the deterioration of the undertaking while in the hands of the Government, to that extent the distribution of that money would put it out of your power to defray these charges out of the fund which you obtained as compensation from the Government?—You mean by appropriating the amount to general reserve and to reserve for contingencies we could not use it to make good any arrears of maintenance.

1038. Not at all; but you see you put it into that fund, and you say it is not this fund, but it is really a profit which belongs to our shareholders which we can capitalise or distribute just as we please. I say if you did that with it, then you have no longer got that money available for the purposes which are the maintenance and replacement and renewal of your undertakings?—Oh, yes, because we should bring the amount into the No. 9 Account as an appropriation for reserve, as we did last year.

1039. Not if it had been distributed?—It has been distributed.

President: You mean to the shareholders, Mr. Thomas?

Mr. F. G. Thomas: My learned friend's proposition was that this is all money which is a mere fortuitous benefit to the traders that it happens to appear in the railway accounts at all; it might all have been out.

President: I do not think the witness understands what you mean by "distributed."

1040. Mr. F. G. Thomas: (To the Witness): You agreed with me at the beginning that this was money which the railway companies were entitled to distribute to their shareholders, they were entitled to capitalise it, and in a sense give the shareholders a distribution or bonus stock; and that is what it comes to in effect?—Yes.

1041. And what I put to you is: To the extent that you do that, you put it out of the power of your company to use those funds for the purposes of deferred maintenance or replacement or any of the purposes for which the fund was originally claimed?—Oh, of course, if we distributed the whole amount we have placed to general reserve and to contingencies reserve, the money is not there.

1042. And if the money is not there, how are you going to pay for these replacements and deferred charges for maintenance? How is it going to be borne?—From the amounts which we have in our depreciation funds for arrears of maintenance and renewal.

1043. And if that is insufficient?—Well, we do not consider it is insufficient.

1044. But you did apparently, when you made your claims upon the Government, because you claimed, I think, a good deal more than £60,000,000?—I do not know.

1045. But I put this to you merely as an assumption. I do not want you to agree with me as to the probability of this happening, but assuming that it was insufficient, and that you had no longer got your general reserve and contingency funds to draw upon,

how would it be borne?—I take it there would be a reduction of dividends. The amount might be placed to suspense and charged over a number of years; but it is such an unlikely contingency that I do not like to give an opinion.

1046. Would there be any obligation upon you to reduce dividends I mean, if this fund was not available for doing these extra maintenance and extra renewals, surely that would come into the general accounts of the company as part of your expenditure?—I say it is a very unlikely contingency, and it is not at all likely to arise.

Mr. Jepson: It is quite hypothetical on your part, Mr. Thomas, is it not?

Mr. F. G. Thomas: Yes, Sir, it is hypothetical; but we have to deal with hypotheses, I think. We have to see what the effect is under certain contingencies as to which we cannot accurately determine the probability of their arising at the moment.

Mr. Jepson: I think perhaps you can tell me this. A large amount of the compensation of the Government was rightly given to them for distribution to their shareholders, was it not? They had a freedom as regards a portion of it?

Mr. F. G. Thomas: They had freedom, I think, with regard to the whole of it.

Mr. Jepson: Well, I think some of it was for deferred maintenance, as you say, and was earmarked?

Mr. F. G. Thomas: I do not think so. I think Mr. Quirey would agree with me upon that, that an absolutely free hand was given to the companies.

Witness: Under Section 11, sub-section (4) of the Act.

1047. Mr. F. G. Thomas: Under Section 11 the directors are given the widest possible discretion as to how this money shall be used?—Yes.

1048. There was no distinction drawn between one part of the fund and another?—No.

1049. The only other thing I wanted to raise with you was with regard to your claims under Section 58 (b) and (c). Of course it has not escaped your notice that whereas in (a) what you are entitled to there is a definite figure of interest on capital, in (b) and (c) it is an allowance?—Quite so.

1050. And when we come to (c) of course on your own claims it is an allowance. It varies in amount from claim to claim, from item to item?—According to the period the work has been in use.

1051. But in (b) you have taken a fixed and definite figure of 6 per cent. as the allowance applicable to all the items however the varying circumstances might be?—Yes. We consider that the allowances are on quite different lines. In the case of (c) the allowance is upon the capital expenditure; in the case of (b) the allowance is to be upon the cost of raising capital, as we view it.

1052. And you have already told us that you have given no effect to the words that it should be capital expenditure which has enhanced the value of the undertaking. You have assumed if there is expenditure that it has enhanced the value of the undertaking?—Under 1 (b)?

1053. Yes?—No. I have left out certain things.

1054. Broadly, I put it rightly?—You have; and we hold that the expenditure which has been incurred has enhanced the value.

1055. That answers my question. Of course the undertaking's value to be enhanced is the undertaking not of the constituent or subsidiary company, but the undertaking of the group?—I take it that is so now.

1056. I am not going into any details now; I am only on the broad principles. It might very well be that expenditure might enhance the value of the subsidiary which was, perhaps, not in keen competition with another part of the group, and yet might not enhance the value of the group having been created for purely competitive reasons?—I should like to see the case before I say whether it is so or not.

1057. As a matter of fact, that might arise?—It might arise, yes. Again, it is unlikely.

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Mr. JOHN QUIREY.

[Continued.]

1058. One other matter I wanted to ask you about was the superannuation fund. What was the position of these superannuation funds in 1913?—The funds remained in the hands of the companies except where it was provided under the Superannuation Fund Act the monies must be invested by trustees.

1059. From an actuarial point of view were those funds in a satisfactory condition in 1913?—Some were, and some were not. Those that I am acquainted with, generally speaking, were.

1060. Your own company, the Midland, was, was it?—Yes; because beginning with 1912 we were providing for the deficiency that had been ascertained at the 31st of January, 1911. In the case of the London and North Western they had been providing prior to 1913 and in 1913 for the sum required to liquidate the deficiency of their fund as ascertained

by the last actuarial examination. Those are the only two that I am acquainted with. The charges of 1913 included, in my view, the amount necessary to maintain the superannuation fund solely.

1061. *Mr. Locket*: To that extent they were inflated if they were increased so as to clear off an ascertained deficiency?—Yes, the expenditure of 1913 would be somewhat inflated in respect of the payment or the amount charged to revenue in that year against the past deficiency. That would be against the deficiency of members' superannuation.

1062. That is not a very serious item?—No, it is not.

1063. *Mr. F. G. Thomas*: There would be some funds which were not from an actuarial point of view in as good a position as they should have been?—That might be so; I am not aware of them personally.

Cross-examined by Mr. STAFFORD CRIPPS.

1064. I want to ask you, first of all, a general question. These accounts are got out under the supervision of an Accountants' Committee?—Yes; I was deputed by the Accountants' Committee and I acted under the instructions of Mr. Cope.

1065. I suppose the various documents were got out by the various company's staff accountants?—That is so.

1066. Can you tell me whether there were any instructions printed or issued as to how the accounts should be got out?—No. I had the representatives of the various companies with me at my office in Great George Street, and we talked the matter over and settled on a uniform line.

1067. There is no record of any instructions which were sent out to the various accountants?—No; the arrangements were verbal.

1068. Now with regard to Items 1 and 2. In "R.T. 3a" I understand that in addition to the six items shown here it is the contention of the railway companies that another item must be added to make up the full Standard Revenue equivalent to No. 2 which has been adopted?

President: Not equivalent.

1069. *Mr. Stafford Cripps*: When you come to compare the Standard Revenue with same future year, will it be necessary to add anything to it or not?—The amount which will be charged in a future year for the items described in Schedule B will be the current charges of that year.

1070. I may have got a wrong impression, but I was under the impression that it was stated an item similar to No. 2 would have to be added?—But relating to the future years?

1071. Of course; but similar in its contents to No. 2?—Similar in its nature?

1072. A similar heading?—No, not at all. The thing would be unjust. You take the first item in No. 2 into superannuation and other funds. Those funds are enlarged year by year—

1073. We are at cross purposes. When I say "similar in contents" I mean the same headings?—Yes, or corresponding items.

Mr. Jepson: Mr. Cripps said not the same amount.

Witness: I thought you said the same amount.

1074. *Mr. Stafford Cripps*: Corresponding heads. Would not it be simpler if figure No. 1 was divided into above the line and below the line, and then there was added to it the difference of the figure below the line and No. 2?—Well, that would be a way out of it.

1075. Would not it be a simpler way of doing it?—No, I think not.

1076. Why?—Because by the method that we have adopted here you can trace every single item either in Schedule A and B or in the subsidiary schedules from the print of accounts.

1077. You could do the same if the first part was divided into above the line and below the line. However, it is only to put the suggestion forward?—I do not think there is much in it.

1078. I should like to ask you one question with regard to these uncancelled investments. You state

that if they are sold at a future time the capital so acquired would not be brought into any subsequent account under Section 58 (1) (b)?—I say that if applied for capital expenditure, in my view, it should not be brought in.

1079. What guarantee is there to the traders, or to the passengers, that in some future year under Section 59 (3) it will not in fact be brought into account?—That item would disappear from the balance sheet.

1080. Let me put a specific case. Suppose that this capital is sold and re-invested, we will say, in War Loan in the year 1930, and in the year 1931 some capital expenditure is required to be made, and the company sell their War Loan and use the proceeds for capital expenditure, and in the year 1932 there is a review of Standard Revenue. Now, the figures which you have put before the Tribunal under Section 59 (3) will be similar figures to those under Section 58 (1) (b)?—Yes.

Lord Advocate: I think my learned friend has made a slip; of course, there is no review of Standard Revenue.

Mr. Stafford Cripps: I am much obliged to my learned friend.

Lord Advocate: It would be a review of the charges.

1081. *Mr. Stafford Cripps*: Yes. (*To the Witness*). Under Section 59 it would be a review of the charges, but in it you will have in fact to make a new standard for revenue?—You may have.

1082. Under Section 59 (3); so that you have told us that that would be calculated on the same basis as Section 58 (1) (b)?—Yes.

1083. Now, I understand your basis for Section 58 (1) (b) is to take all the capital expenditure and to say that money must have been raised or provided to meet it?—Yes.

1084. Under that basis it will be impossible for you to distinguish whether this, we will say, £400,000 of the London, Midland and Scottish stock has, in fact, been used, or has not been used and it will come into the claim will it not?—No, it might not.

1085. Well, first of all, might it?—It might.

1086. It might; very well; that is quite enough for me, thank you. Now with regard to the question of adjustments of head 1, have you looked through the accounts from the point of view of seeing whether any adjustment ought to be made by subtraction with regard to the revenue wrongly brought into account in 1913, or with regard to expenditure wrongly omitted?—I have made all the adjustments which could be traced from the face of account.

1087. If you would not mind just answering the question I should be glad. It is only in order to satisfy my clients that it has been done. Have you gone through the accounts from the point of view of seeing whether there is any revenue wrongly brought into the 1913 accounts, or whether there is any expenditure wrongly omitted from those accounts?—We took the published accounts as they stood.

1088. So that although you examined them for the purpose of seeing whether anything should be

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added by way of adjustment, such as the special suspense reserve, you have not examined them for the purpose of seeing whether anything should be deducted?—I did not examine the accounts to find out whether the 4 per cent. reserve should be added. I knew that it existed, and it was acknowledged by the Government during the Control period.

Mr. Jepson: He did not find it in the accounts at all.

Mr. Stafford Cripps: No, he knew it; it was a matter of notoriety.

Mr. Jepson: He had it in his books.

1089. Mr. Stafford Cripps: Did you examine the books in order to see whether there were any sums which should have been taken out of the accounts?—No, it was not necessary; I took the accounts as published.

1090. You mean that you did not think it was necessary?—I did not think it was necessary.

1091. Now I want to go to 68 (1) (b). First of all, can you tell me what meaning you have given to the word "undertaking" in making those enquiries?—We have taken out the expenditure upon all the headings that are set out in Schedule "D"—the capital expenditure of the Company.

1092. I see; and that includes such things as investments?—Investments do not arise in connection with capital expenditure.

1093. Well, it may include such things as investments?—I do not quite understand the question.

1094. I want to find out whether it may or may not include investments?—If you mean "Do Schedule 'A' and Schedule 'B,' the income of the Company, include investment?" then the answer is "Yes."

1095. No, I did not mean that. I was referring to the capital items which you have considered as referable to the undertaking; do they include investments?—Investments under other Companies.

1096. Under other Companies?—Yes, we have taken those.

1097. So that you have considered as being the "undertaking," not the actual entities of the various works, but the whole business of the Railway Company?—Yes. I explained yesterday, with regard to the advance to the London Electric Railway by the London and North Western Railway Company, that these advances are made for railway purposes.

1098. I quite appreciate that, but I am anxious to know exactly how you limited your idea of the word "undertaking"?—Yes, I follow.

1099. I want to know what you have included under capital expenditure for the undertaking?—We have included expenditure not only on the line and works, but also the advances to other Railway Companies made for traffic purposes.

1100. I see. Now, if that is the view of "undertaking" which is the correct view, does it make any difference to the revenue-earning value of the undertaking if you exchange money which is (we will say) invested in outside securities at 5 per cent. into works which produce 5 per cent.?—There is no change in the amount of revenue-earning as compared with the period when the investments existed. It is a transfer from a floating asset to a fixed asset.

1101. Therefore taking that idea of "undertaking," there is no enhancement of the value?—It all depends upon the period with which you make the comparison.

1102. If you will excuse me, I do not want to take any specific periods; I am not dealing with specific periods at all; I am taking it perfectly generally?—I do not admit that there is no enhancement; I say that there is an enhancement of the value of the undertaking, in that its intrinsic value has increased.

1103. I thought your definition of "value" was the revenue-earning power?—No, I did not say so.

1104. Perhaps it was my learned Friend the Lord Advocate, who put that forward as the proper criterion.

Mr. Jepson: As I understand it, what Mr. Quirey is saying is this: Your own proposition was that if money was invested in War Loan at 5 per cent., and was then taken out of War Loan and invested in some other railway company at 5 per cent., then there was no enhancement of the value of the undertaking as such. Mr. Quirey's answer to that is this, that if money is taken out of War Loan and put into another company at 5 per cent.—or, I suppose he would say, even at a lower figure—it is invested in railway working, and that railway working is remunerative in itself, quite apart from the interest; and therefore there may be an enhancement of the value of the undertaking.

Mr. Stafford Cripps: That is why I was trying to get from Mr. Quirey at the beginning exactly what he meant by "undertaking."

Mr. Jepson: That is what I understood that his answers amounted to.

1105. Mr. Stafford Cripps: Let me put it again, in order to get quite clear what your answer is, Mr. Quirey?—Yes.

1106. If you take the revenue-earning capacity of an undertaking as the criterion of its value, you appreciate that, do you not?—Yes.

1107. It will not make any difference to the revenue-earning capacity of the undertaking if you change over from an investment in War Loan (we will say) to an investment in capital works of some sort?—Not from a revenue-earning point of view, possibly.

1108. There is a question I want to ask you with regard to the form "J.Q.I." One of the items in this form is "Proceeds of new capital raised"?—Yes.

1109. And it comes roughly to £18,000,000?—Yes.

1110. At the time when that capital was raised, were there large debits to capital account on all those items?—All companies' capital accounts were over-expended; but I do not know to what extent they were over-expended in 1913.

1111. Was that capital which was so raised used to make up those debits?—The capital was raised in order to put the company's balances right.

1112. I do not want to know why it was raised. I asked you: When it was raised, what was it used to do?—It was used to make the companies' bank balances right; to reduce the bank overdraft.

1113. Will you kindly try and answer the question, if you do not mind? Was it used to make up the debits on capital account?—It would have the effect of reducing the debit on capital account, yes.

1114. Can you tell me whether it was used for that purpose at all?—I do not understand the term "used."

1115. Let us take it, first of all, from the point of view of the accounts. Was it shown as making up that debit?—It was shown as a receipt in the capital account, and it would have the effect of reducing the amount over-expended.

1116. Mr. Locket: I suppose from a book-keeping point of view you have a floating debit practically always, have you not?—Yes.

1117. And if you raise new capital of that sort, it is applied to the credit of the capital account, and therefore it tends to reduce your floating debit on that account?—Yes, that is so.

1118. That is from a book-keeping point of view?—Yes, that is the point.

Mr. Stafford Cripps: From the point of view of raising the money, for what purpose was it raised?—For the purpose of the railway.

1120. Was it raised in order to wipe off some of this debit to capital account?—Might I say how the companies proceed to deal with issues of capital?

1121. Certainly?—The companies have certain floating balances, cash in hand and investments, and the like, and they use those, as far as they go, in the working of the undertaking and upon capital expenditure. When their bank balance gets low, or when there is an overdraft, they have to make an issue of capital in order to restore their financial position.

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1122. Yes, quite?—Their money is not earmarked against any capital expenditure; that is impossible.

1123. I quite appreciate that; and capital was not raised in order to undertake any particular work?—Not in this case.

1124. One could imagine that if a company were going to rebuild Victoria Station, for instance, it might make an issue of capital of £1,000,000 in order to do it?—Quite so.

1125. But that was not done in any of these cases?—There was one case that I overlooked. The Great Western Company issued stock for the acquirement of the Swansou Harbour Trust.

1126. I am obliged. You told us that the debit to capital account had largely increased during the years 1913 to 1923?—Yes.

1127. And I suppose that in itself shows that during that period there was not sufficient additional capital raised or provided to carry out all the capital works required?—That is so. Not sufficient capital raised or provided, did you say?

1128. That was my question?—Then I misunderstood you. There was not sufficient capital raised to carry out the capital works.

1129. Or provided?—The capital was provided, because otherwise—

1130. But if it was provided as capital, it would so appear, would it not?—It was not provided as capital stocks; but the cash was provided.

1131. But from the point of view of an accountant, it was not provided as capital?—Not as railway capital; but it was provided out of the floating capital of the company.

1132. Mr. Jepson: Was it provided for capital expenditure?—Yes; the money was expended on capital works.

1133. Mr. Stafford Cripps: There is one more question that I want to ask you upon that point. Would it be a proper term to apply to that money, such as the free reserves of which you are speaking, to describe it as "additional capital"?—No; but the money could be distributed as dividends and could be had back again from the proprietors for stocks.

1134. I quite appreciate your point about it. Now the term "adequate remuneration" is used in Section 53 (1) (b). I want you to tell me generally—not as regards sums included under 53 (1) (b) only—what you consider an adequate remuneration at the present time for money lent to a railway company. Of course there are different means of lending it, I realise that; but I want it generally?—I would place it at the cost at which the company can raise capital in the market.

1135. I put it to you in the other way, if you do not mind taking my way for the moment. What do you consider is an adequate remuneration to be received for money lent to a railway company?

Chairman: Do you mean strictly loan capital, Mr Cripps?

Mr. Stafford Cripps: No, Sir, I mean money provided for the railway companies by members of the public, whether it be shares, or preferred shares, or debentures.

1136. It will perhaps make it simpler if we take the three classes. Take debentures to begin with?—Yes.

1137. What do you consider at the present time is an adequate remuneration to be expected from debenture stock?—About 5 per cent.

1138. 5 per cent.?—About 5 per cent.

1139. And that, of course, is reflected in the market value?—Yes.

1140. And what is the similar value for preference?—The figure that we took was 5½ per cent., as explained by the Lord Advocate.

1141. But you took it on a different basis; and that is why I am asking you on this basis, because I want to see what the difference is. You took it on the basis of including the cost of raising the money?—Yes, and that is the only way by which we can create preference stocks.

1142. I am asking you what is the adequate remuneration to be expected by a member of the public

at the present time from an investment in preferred railway stock?—I say again, 5½ per cent.

1143. And with regard to ordinary, you say 7½ per cent.?—7 to 7½ per cent.

1144. I must have been mistaken, I suppose; but I thought you were making some special point in your evidence as regards the cost of raising the capital, and putting a large amount of capital on the market; that the company would lose over it?—I said that if a large amount of capital was put on the market, the present-day prices would not be obtained. That was all I was saying.

1145. I quite appreciate that. Now there is one other set of words as to which I want you to tell me the meaning that you have given to them; and those are the words "expenditure incurred" in Section 53 (1) (b). I am only asking this for information. When do you date the incurrence of expenditure?—When the amount is expended.

1146. When the cheque is paid?—When the cheque is paid; or rather I should put it when the cheque is issued by the company.

1147. That is the same regulation as in the pink book, or one of those books?—Yes; that was the second arrangement regarding Government control interest.

1148. Now there are two questions that I want to ask you with regard to steamboats. There is a convenient little table set out on page 124 of the Colwyn Report. I only wanted to ask you this: you gave an explanation yesterday of how the price of a new steamboat was met. Does that table represent it?—No; this was a table compiled for the purpose of arriving at—

1149. I know the purpose for which it was compiled, but I rather thought that this was the explanation which you gave?—No. I think I was explaining that if a ship is taken out of service and a new ship put into service, by some companies the capital cost of the ship taken out is credited to capital account and charged to depreciation fund, and capital expenditure is charged with the first cost of the new boat put into service.

1150. I see. So that in fact the capital value of the old boat going through the depreciation fund, serves to pay part of the new boat?—Yes; the moneys available from the depreciation fund are so used. 1151. There is one other point about ships. As you will remember, the railway companies received a sum of about 2½ million pounds from the Admiralty in respect of boat that were taken?—Yes—bought.

1152. What has happened to that sum?—I do not know. It may be held against future renewal of the boats, and in some cases it is. I do not know it.

1153. Let me remind you about it. It is in the Colwyn Report on page 27, at the bottom of the page, where it says: "A substantial case of such realisation of capital assets employed in the base period, without adjustment either of the standard net receipts or of the additional capital expenditure ranking for interest, is that of steamships taken over by the Admiralty. As these steamships contributed to the net receipts of 1913, no payment was due to the companies in respect of their use by the Government during the period of control. A special agreement was entered into by the Admiralty, however, under which payments have been made to the companies in respect of the cost, less accrued depreciation, of replacing ships lost or not returned. Under this agreement the companies have received sums amounting to approximately £2,500,000, and the companies have presumably invested the amount, and enjoyed the interest realised thereon below the line."—Yes; of course that was the dispute with the Government there. They were not concerned with below-the-line receipts.

1154. But the passengers are?—In our own case, the amount received for two ships, one lost and one sold to the Government, is held against the future renewal of the boats. The amounts form part of our floating balances and of course earn interest.

1155. And of course if at some future date a boat is bought, I suppose the same considerations would apply as regards the question of whether the capital

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had been raised or provided under 59 (3)?—Not in that case. The amount held in reserve would meet the cost of the new boat, and no charge would be incurred to the capital account.

1156. I quite appreciate that that should be so, but that would depend upon the particular views taken of that particular reserve at the time when the alteration came to be made?—I should think that the Companies will act fairly honestly.

1157. I am not suggesting for a moment that the Companies are going to do anything that they consider to be unfair, at all; it is only that these things may be lost sight of?—They will not be lost sight of now.

1158. Not now; but that 2½ million pounds may not be expended for a very long time?—And in the meantime it is earning interest.

1159. Quite?—I do not think it is likely that the Companies will overlook it and charge capital where they ought to charge the fund.

1160. If they did overlook it, it would be unfortunate to the passengers and other people?—To the extent of 6 per cent. on the capital cost, yes. It would be a fleecite.

1161. A series of fleecites may be very annoying?—Very unpleasant.

1162. Now will you turn to 58 (1) (c). First of all I want to ask you what meaning you have given to the term "works"?—The details of the works are set out in the schedule; it is additional station accommodation, new station accommodation, new lines, purchase of lines, widening of lines, and other improvements of that kind.

1163. I see?—I excluded rolling stock and steamships and certain other small items.

1164. Now will you tell me what definition you have given to "a work"?—The cost of each single work was taken out.

1165. That does not help me. I want to know how you got to "a work." Is it just "a work" as mentioned in a special Act of Parliament?—No; it would be a work as ordered by the board of directors.

1166. So that your definition of "work" depends on the orders given by the directors?—Yes.

1167. If you will just let me take an example, I should like to do so, if I may, because I want to get this quite clear. Will you look at page 26. Do you see that in the third paragraph there, there is an item with reference to Swinton? I think this is your own railway, is it not?—Yes.

1168. The item is "Swinton, widening line and additional passenger and goods accommodation. December, 1902." Why is not the widening of a line a work?—Because it was ordered and carried out in conjunction with the additional passenger station and goods accommodation.

1169. I see?—The plans for the whole scheme would be submitted at one time to the directors and approved.

1170. Would the same thing apply to the additional electric plant, for instance, which is put down as a work on page 30? I am referring to the Liverpool and Southport item?—That was the electrification of the line.

1171. I quite appreciate that it was the electrification of the line; but what I asked you was whether the additional electric plant was a work?—Yes, additional electric plant would be a work.

1172. That would mean that there would be a separate order from the board of directors that this additional electric plant should be provided?—I should say in that case the whole scheme was approved of; but I do not know.

1173. Then your definition is not accurate.

Mr. Jepsen: There are two entries on page 30 with regard to Liverpool and Southport.

Mr. Stafford Cripps: There are a number of them, Sir; they run through it.

1174. Let me see if I am at one with you, Mr. Quirey. I thought you told me that these items here represented a work?—Yes.

1175. You also told me that your definition of a work was that which was ordered at one time by the board of directors?—Yes.

1176. But now you tell me that this additional plant was not ordered at one time by the board of directors, but was ordered together with a lot of other things?—No; I say that this additional electric plant was probably the subject of an order after the first work had been sanctioned; it was something additional.

1177. That is not quite what you told me?—I did not read the entry to which you are calling attention. I looked at the top entry which read "Liverpool and Southport—electrification."

1178. I am sorry if I hurried you too much. I see. Now each of these items set out here is set out as being a work, is it?—Yes.

1179. And not a part of a work?—Some of them may be part of works.

1180. I see?—Take the case of widening. You will find widenings shown in various half-years. Possibly the part that is brought in in one period is the part that was brought into use out of a whole scheme.

1181. Then the dates which you take here are the dates when the various things came into use?—We have tried to ascertain that.

1182. Why do you take the date when they were brought into use?—Because that is when they begin to earn revenue; when they begin to become remunerative.

1183. But this is an allowance in respect of capital expenditure, is it not?—Yes, capital expenditure upon works.

1184. Yes; capital expenditure upon works?—Yes. We adopted the arrangement that was come to in the Government control period, where we were allowed interest on capital expenditure upon works brought into use.

1185. But that is not what the section says, is it?—I only applied a layman's interpretation to it.

1186. I suppose you were told how to apply it?—It was explained, yes.

1187. Perhaps you had a similar sort of meeting as you had with the accountants, when it was expounded?—No.

1188. The fact remains, however, that all these items are items referring to when the actual work was brought into use?—Where we were able to ascertain it, yes. There are some cases where we could not ascertain when the work was brought into use, and in those cases the date when the undertaking was charged in the accounts is given instead.

1189. Suppose you take the first item of the Midland Company: "Brightside, widening line. £47,099." The probability is that if that was taken from the date when the expenditure was made, it would not appear at all?—To some extent.

1190. The probability is that it would not appear at all?—Part of it might not appear. The work was brought into use in the half-year ending June, 1890; but some part of it may have been in the half-year ending December, 1898.

1191. So that with regard to a large number of items, a large amount of money would have been actually expended before 1899?—I would not say so.

1192. It is all hypothetical, but it is quite obvious that if the right moment to account is the moment when the capital is expended, then these accounts are wrong?—Yes, where the charge is made from the date brought into use.

1193. And the whole of the moneys will be set back?—Yes.

1194. That is to say, 1912 might be set back to 1911, and so on?—Yes.

1195. And in the aggregate that will make a very large sum indeed?—It will make a reduction in the claim.

1196. Something like 1 per cent?—Oh, no. Chairman: They might have to put something on the other end, might they not?

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Mr. Stafford Cripps: I am just coming to that, Sir.

1197. You would not, in fact, have to put anything on the other end, would you?—Yes.

1198. Wait a moment. As a matter of fact, the Government already have in their 58 (1) (a) "Moneys paid by the Government." You have told us that £7,000,000 out of that was in respect of expenditure made in the end of 1912 which had not come into use till 1913?—That is right.

1199. So that that expenditure at the end of 1912, and so on, would not come in, because it was under Section 58 (1) (a) already?—It does not come under Section 58 (1) (e).

1200. So that if it means moving this block of £7,000,000—we will assume that there was £7,000,000 for the moment—it would mean taking out altogether that sum of £7,000,000, because you take it off the 1899 end, and you would not add it to the other end for the reason that it is already included in 58 (1) (a)?—But it would only affect the first item, or any part of it, to the extent of one-eighth per cent.

1201. That depends upon how long the expenditure was before the opening?—It is one-eighth per cent. per half-year.

1202. I suppose in some of these cases undoubtedly some of the expenditure takes place a long time before the opening?—Not very long.

1203. Will you just take the case of Little Ilford, which is on page 27. The item is: "Little Ilford sidings, car shed, etc."?—Yes.

1204. It is the sixth item from the bottom?—Yes.

1205. Then there is another entry just below it. Do you see it?—Yes.

1206. That expenditure was made some time before the opening, was it not?—£4,098 was expended on the part brought into use in the half-year to December, 1905.

1207. It was brought into use in sections?—Yes.

1208. So that if you have a thing which is brought into use as a whole, you might well have the cost distributed over a considerable number of years?—No, not over a number of years; over some months.

1209. Let us assume for a moment that this Little Ilford siding had been an item which was brought into use as a whole?—Yes.

1210. As a matter of fact, the expenditure upon that was spread over seven years?—Yes.

1211. So that if you had taken the last date as being the date when it was brought into use, as regards the first sum of money expended you would have seven years' too much interest?—But that is what we have not done. We brought that charge in as the works were brought into use.

1212. That is exactly what I say. We are assuming for the moment that this was a work brought into use as a whole?—Yes. But I cannot think of a capital work on any railway taking seven years to complete before any part of it is available for use.

1213. You are quite certain that the orders for these Little Ilford sidings were given each half-year by the board of directors?—No; I should say it was an order given in its entirety.

1214. Then I do not quite understand it, because we are dealing with "a work" here. When was the work in respect of this order brought into use?—In sections.

1215. I do not want sections; it does not say anything about sections in this part of the Act; it says "the work"?—Yes.

1216. Why not take the mean date?—We could have done that.

1217. I do not want to know what you could have done, but I want to know what was the reason?—We thought it fairer to take the date on which the work was brought into use.

1218. Not when "the work" was brought into use?—Well, when the parts of the work were brought into use.

1219. Do you regard the purchase of land as a work? Yes, for this purpose.

1220. Do you generally regard it as a work, under railway practice?—No, I should say not.

1221. It is obvious, is it not, that it is not generally regarded as a work?—But the purchase of land is under the control of the Way and Works Committee.

1222. I quite understand the machinery, but what I was asking you was whether, in railway parlance, the purchase of land is generally known as a work?—No.

1223. Therefore, if one is to interpret the Act under railway parlance, it would be wrong to put in such items as appear at the bottom of page 27, "Liverpool, Bootle—land, £19,863"?—Unless it was land purchased for the work subsequently brought into use.

1224. If it is not what is shown here, it may be something else, I admit; but as shown here it is land?—Yes.

1225. And it does not relate to any work which is brought into use at any date?—The work is not specified, I admit.

1226. And that criticism would apply to all the questions of land throughout this 58 (1) (e)?—Yes, where the work for which the land was purchased is not described.

1227. There is one other point upon this which is rather a small point. I have just been presented with an instance of a work which I understand has taken some years to complete, and that is the Gleneagles Hotel. Was that some years in building?—Gleneagles Hotel has only become the property of the company—

1228. I was not asking that. I was asking how long it had taken in building. But perhaps you do not know?—I do not know. The war interfered with all structures; that is all I can say.

1229. I quite appreciate that. With regard to the date brought into use, you have taken a half-year?—Yes.

1230. Have you adopted the usual railway practice that anything over 1d. is 1½d.?—No; anything brought into use between January and June we should put into the June half-year.

1231. You have not taken the nearest date, then. I mean, if it is between June and December and it is nearer to June than to December, you have taken December?—No; anything brought into use between June and December is December.

1232. That is to say you always get credit for six months?—Perhaps it is a little more.

1233. You never say that a thing brought into use in August, for example, is June?—No.

1234. With regard to one or two items such as the Holywell Railway, which is at the bottom of page 24, and which was simply entered down here as being December, 1912, was that fully brought into use in December, 1912, or only sectionally brought into use?—No; as I understand it, it was brought into use at once. It is a small matter, only £28,000 add.

1235. I know it is a small matter, but I am simply taking it as an example. The matter about which I want to have your assurance is that no matters have been included at the end of this, which might be included in that £7,000,000 of which you spoke, as money under 58 (1) (e), which was expended in 1912, but which was in respect of works which came into use after January 1, 1913?—This would not be in that.

1236. You realise that if you are taking that, and bringing these works into use in sections, it might be possible that there would be a duplication?—No. We had to satisfy the Government investigators as to the period in which the work was brought into use in 1913.

1237. I quite appreciate that; but were you then equally dealing with the work as a thing which could come into use in sections?—Yes.

1238. You were not dealing with it as a whole?—In sections, if brought into use in sections; or otherwise.

1239. I see. Now of course different classes of work will have different rates of remuneration in railway capital expenditure?—It will earn different sums, yes.

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[Continued.]

1240. I was trying to take the words of the Act, and that is why I used the word "remuneration." Therefore what would be fully remunerative for one class would be perhaps too much for another class, or too little?—Or too little; yes.

1241. So that it is quite impossible to apply any hard-and-fast rule to all classes?—No; I have explained that we had used an arbitrary formula.

1242. I appreciate that you used an arbitrary formula, but I am going to suggest that it would have been better to have classified the things first of all, and then have applied different formulae to the different classes of property?—If we had had an opportunity of doing that, we might have done it.

1243. Do you think that it would have been better?—I do not know that it would have been better, on the whole.

1244. You think that the whole thing is such guesswork that it does not matter?—There is a good deal of guesswork in it. The average rate we have taken as a fully remunerative figure is a rate that we consider to be reasonable.

1245. Just one other word upon this section, with regard to the word "undertaking." I suppose you have given to that work the same meaning, in getting out these figures, as you gave to it under the previous section?—Yes, except that there is nothing here for investments in other undertakings.

1246. Why did you exclude those?—We looked upon it that the section related to works executed in our own undertaking.

1247. And that it does not include anything with regard to "J" joint lines?—Yes, the "J" joint lines are brought in at the end.

1248. Are they your own undertaking?—They are partly our own undertaking.

1249. Are they your own undertaking?—Not our own lines.

1250. They were not your own undertaking. That is the answer, is it not?—They are subsidiary.

1251. Therefore if you take this phrase as applying to your own undertaking, you were wrong in bringing in the "J" joint lines?—We might have brought in contributions to works executed by the "J" joint lines.

1252. Never mind what you might have done. If you say that it means what you say it means, that is to say "your own undertaking," then you were wrong in bringing in the "J" joint lines?—Well—

1253. Will you kindly answer the question first, and explain afterwards?—I want to explain it.

1254. Yes, but will you kindly answer it first?—What is the question?

1255. It is this: If your reading of the word "undertaking" here is correct, which is that "undertaking" means your own undertaking, then you are wrong in including figures with regard to the "J" joint lines?—Quite; but might I explain?

1256. Yes, please do explain?—With regard to the previous schedule, I was asked whether "undertaking" included the investments on the other undertakings outside; and I said: "Yes; for this purpose I have not construed 'undertaking' as including investments." If I am prohibited from bringing in the "J" joint lines, I should want to amend that and claim—

1257. I am not quarrelling with it; I only wanted to know if you had taken the same meaning of "undertaking," or if you had taken a different meaning; and you have told me quite frankly that you have taken a different one?—A different one.

1258. There is another question that I ought to have asked you about "J.Q.I.," which is this. All that you have shown here are the reserves, and so on, of the amalgamated companies. That is the form that we had yesterday of the statement of capital expenditure and allowances?—Yes, the amalgamated companies only; the companies now forming the amalgamated companies.

1259. I appreciate that. A lot of this expenditure was prior to amalgamation, was it not?—Yes.

1260. A lot of it?—Oh yes.

1261. Therefore that capital had to be found, not out of the sum of the reserves, and so on, of the whole of the amalgamated companies, but out of the individual reserve or capital raised by each individual company?—That is so.

1262. So that this does not give any criterion at all, really speaking, as to how the capital was found?—As the years went on, do you mean?

1263. Yes. No; it shows how, at the end of the period, the capital has been provided.

1264. But it does not show how the capital was provided from day to day as it was required?—No.

1265. It shows, possibly, how at some subsequent date it may have been replaced?—Yes.

1266. It shows how the moneys that were used may have been replaced?—That is right.

1267. Now I think you have been asked about the sum of about £19,000,000 which you put in in manuscript in "J.Q.I.," and which the Government had provided. Do you remember increasing the free reserves, including Government compensation? You gave your figure to put in for that, which came to about £19,000,000?—I think Sir Douglas Hogg quoted the figures. I had not put in the figures as far as I recollect.

1268. I am sorry; I have the figures here, and, no doubt, they are correct?—I took them from Sir Douglas Hogg.

1269. Very well. That money was provided by the Government, was it not?—It was Government compensation.

1270. The money was provided by the Government?—Are we thinking about the same thing?

1271. Yes, it is part of the £60,000,000?—Yes.

1272. It was not provided by the public, but it was provided by the Government?—Yes.

1273. And it was not brought in, was it, as additional capital for railway companies?—Not for additional capital, nor has it been used for additional capital.

1274. Now there is another quite small point. It is suggested that there is duplication—it may be wrong, but I want to call attention to it—with regard to Kilsyth and Bonnybridge Railway. That was a railway company which was worked, I think, by the Caledonian and the North British Companies, was it not?—Yes, it was a joint line.

1275. And it was absorbed into the London and North Eastern Company, was it not?—Yes.

1276. Some of the receipts, as a matter of fact, came into the Caledonian?—I do not know.

1277. Do not worry about it now, but just look into it and let us know about it later on, if you will. The suggestion is that by some slip the item appears in the Caledonian Company and also in the London and North Eastern Company, so that it is duplicated?—I think the line still exists as a joint line and I think that we have rights in it; but I cannot tell you.

1278. Perhaps you will make enquiries about it?—Yes, I will.

Cross-examined by Mr. MORRISON.

1279. These four books of railway statistics, which have been identified by the learned President as "Price 21s.," are the product of the Joint Committee of Accountants representing the various groups of railways, are they not?—They were compiled by the Railway Accountants Committee.

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accountants?—The work was done by the Accountants' Committee, and the figures were submitted to the Company for their approval.

1282. But the actual work was done by the accountants, and we may take it that this "R. T. 3a" is really your own child, so far as the London, Midland and Scottish Company is concerned?—With assistance, of course.

1283. Will you explain whether, in calculating the depreciation, you first of all ascertained the expenditure on renewals and maintenance for the year with which you were dealing, or whether you took an estimate of what was considered necessary during the following year?—For the purpose of this table I took the 1913 accounts as published. I did not enquire into the charges on accounts.

1284. And do the maintenance charges, in your opinion, adequately cover the depreciation?—In my view, so far as I am aware of it, they do. The maintenance and renewal charges include the amount required for renewals of the works.

1285. The figures for 1913, of course, are of great importance in the proceedings of this Court?—Yes.

1286. In order to make the 1913 reserve correspond with the real obligation of the Company, should not the cost of working out the renewals be revised in accordance with the facts as since ascertained?—That is, that the renewal provisions of 1913 should now be increased to what is necessary to perform the work at present-day prices; is that you mean?

1287. Yes, if necessary?—I think not. The depreciation that was provided in 1913 was in the light of our then experience, and, as a fact, in the Government control period the 1913 provision was allowed, plus the additional cost over the 1913 prices of renewal work carried out.

1288. In the main, you are standing on the published accounts of 1913?—Yes.

1289. In fact, you actually are?—Yes.

1290. And although, by subsequent experience of what might have happened in various matters reflected in those accounts, inaccuracies may now be revealed and acknowledged, you still think it is a proper thing to stand on the published accounts of 1913?—I do not admit inaccuracies.

1291. No, but there may have been things charged in the accounts of 1913 in the light of your knowledge at that time, which, in the light of your present knowledge, might not be so charged?—That is so. The receipts might be greater if we revised them. Is that your point; that if we revised the accounts of 1913 we might increase the receipts?

1292. You have revised them?—No; I say: "Is that what I am asked?"

1293. I understand from your own answers to questions, and from the statements of the Lord Advocate, that the Companies are standing firmly on the published accounts of 1913?—That is so.

1294. It is true that those accounts are made up somewhat after the actual year; but, even so, between the time when they were published and the present time, it might appear, from greater knowledge, that things charged there and things entered there, should not be so charged or so entered, in the light of your present knowledge, which may be greater than the knowledge which you had at the time when the accounts were made up?—That is so; we always make, to the best of our knowledge and belief, ample provision for all liabilities.

1295. Yes, but you are standing firmly on the accounts of 1913 as published?—Yes. With regard to the matter of depreciation, where you say that the provisions of 1913 might have to be revised because the work then provided for has actually cost more, should we not wait in that case to have our revenue also revised, in view of the fact that the increased rates and fares now in operation are in order to meet increased costs? That is how I view it.

1296. I am cross-examining you?—I am sorry.

1297. You stated, and I think the Lord Advocate made the point, that you were very anxious that the account should not be re-opened, because documents

might have gone, and officials might have left the service or might have died. I understand that that is your point of view with regard to the matter of the reopening of the accounts?—Those are two of the points. There are others, of course.

1298. But surely the books in the possession of the company, and the records in the possession of the company, are a full and complete record of all the financial operations of that year, are they not?—That may be so ideally, but it is not perhaps the fact. We do not keep all our vouchers for an interminable period.

1299. But you appreciate the importance of the point from the point of view of the Court: we must have reliable information as to what happened then, even though somebody handling the accounts at that time may have died, or even though certain documents may have gone. Do not the railway companies carry on their business on the understanding that if an important member of the staff leaves or dies, the undertaking can still carry on with full efficiency?—But my point is that the accounts of 1913 are reliable.

1300. Yes; well, then there can be no objection to their being reopened, because presumably the companies can prove every one of the figures that are given in the accounts?—I put the objection to the reopening of the 1913 accounts largely on the ground of the time that would be occupied, and the never-ending wrangle that there would be between the parties who would be present at the investigation.

1301. The companies are content?—So far as the financial results are concerned from the reopening of 1913 I am not afraid.

1302. The companies, I gather, are content to content to abide by the figures of 1913 as accepted by the Government?—That is so.

1303. And one of your reasons for standing on the 1913 figures is that they had been accepted by the Government?—Yes.

1304. You would agree that the Government treated the companies reasonably in the matter of compensation on the value of the undertaking?—I think they treated them fairly.

1305. Even generously?—No.

1306. Under the special items in Schedule "H," on page 43 of the London, Midland and Scottish book, there appears an item "Northern Counties Committee, Ireland. Profit on working." Can you say what period that profit on working covered?—Yes, I made that account myself. It covered the year 1913.

1307. This was only the profit made by the Northern Counties Committee in 1913, actually?—Yes.

1308. Did you not receive the profit in 1913?—This is the profit we received in 1913.

1309. You see, there may be a distinction between the date at which you received the profit and the date at which it was made by the Northern Counties Committee?—This is the amount contained in the accounts of the Northern Counties Committee for the year 1913.

1310. In making up your accounts for 1913 you brought them in?—Yes. You see, I closed the accounts in Belfast about the 12th of January, and they were available for Derby long before they were in a position to close.

1311. Was the profit paid over in 1913?—The profit was paid over in instalments as they got it available during the year; and the balance would be paid during February.

1312. With regard to economies, the blank space which has yet to be ascertained, are we to understand that the companies hope to lodge a claim on the ground that they have already made economies due to amalgamation or efficient management. I understand they are not ready, but do they intend to make such a claim?—I am not in a position to speak even for the London, Midland and Scottish, because I have not looked into that point yet.

1313. You do not know whether they have made any economies?—Personally, I cannot say.

1314. Have not the companies considered whether they will make a claim under this provision?—Yes. I

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said yesterday the matter was under consideration. The difficulty is how to find the economy effected.

1315. They do not know yet whether they will make an application or not?—I do not think we can say that yet.

1316. But you will appreciate it is desirable we should know that fairly early, because it is a factor in determining Standard Revenue?—As soon as I get through this thing I shall be tackling the London, Midland and Scottish economy question.

1317. I understood from an answer you gave to Mr. Cripps that the date at which expenditure was incurred was, in your view, the date on which the cheque was issued?—Yes, that is so.

1318. If that is so, how is it that you claim to have provided in your 1913 balance-sheet for unpaid accounts?—Those were the liabilities of that year which had not been met. I was dealing with the question of capital expenditure. The unpaid accounts there relate almost wholly to revenue expenditure.

1319. In the balance-sheet on page 34 of the big blue book I see: "Accounts Payable, £790,000; Liabilities Accrued, £76,000; Miscellaneous Accounts, £123,000"—Yes.

1320. That is in the balance-sheet?—Yes.

1321. They are accounts unpaid?—Yes.

1322. Do you treat the capital account differently from the general balance-sheet of the revenue accounts?—If there was an account for capital matters supplied to the company and not paid at the end of the year it might be carried in. I cannot tell you the content of that now. It will be found that these unpaid accounts and liabilities accrued relate largely to the working of the undertaking.

1323. Under Section 58 (1) (b) the companies are claiming 6 per cent. as the rate of interest which is appropriate to that capital?—Yes.

1324. Under Section 53 (1) (a) the Government and the companies apparently agreed, or at any rate Parliament enacted, that 5 per cent. should be paid on certain capital expenditure coming under category (a)?—Yes, 5 per cent. is paid upon the amount of capital expenditure; but 6 per cent. is our estimate of the cost of raising capital.

1325. That 5 per cent. was fixed, and was considered to be fair, in the year 1921?—Yes, upon expenditure which had been incurred prior to 1913 in some cases down to 1921.

1326. But presumably it was brought into account under (1) (a), having some relation to the financial conditions of the time?—It was a continuation of the agreement come to with the Government with regard to the second class of interest on capital expenditure.

1327. Do you remember the price of money at about 1921?—No, I do not.

1328. You will agree it was 2 per cent. or 3 per cent. higher than it is at the present time—certainly 2 per cent.?—It was low; the stocks and shares stood at a low figure. But this expenditure in Section 58 (1) (a) was not incurred in 1921, and it was not necessary to raise the money in 1921.

1329. But would you agree that the price of money has materially fallen since 1921, or the average, on the general money market?—Yes, the yield upon investments is less.

1330. Indeed, in 1921 the price of money was rather at the peak, certainly since the war?—Yes, the market was in a disturbed condition. But I do not see that that fact has any bearing on the amount to be allowed upon expenditure that had been incurred earlier.

1331. Have the London, Midland and Scottish Company, or any of the other three companies, borrowed money under the Trade Facilities Act?—Not the London, Midland and Scottish. I cannot speak for the others, but I think not.

1332. You do not know about the others?—The London, Midland and Scottish have not.

1333. As to the others you cannot be sure?—I do not know.

President: The Southern Railway has, for electrification.

1334. Mr. Morrison: You have heard of the London County Council tramways, I suppose?—Yes.

1335. And that they have been subjected to a great deal of criticism?—I suppose they have.

1336. The average railway director would look with scorn upon the London County Council tramways, would he not?—I do not know what the outlook of a railway director is.

1337. I think you are wise in that observation. But there has been a very great deal of criticism from various people, partly, I admit, from politicians, who, of course, are not to be believed, but partly from business men—financiers?—I will take it from you.

1338. That they regard the London County Council tramways as badly managed, as losing an awful lot of money, bound up with red tape—which, of course, the railways never are—and generally in a bad way. There has been a great deal of talk to that effect, has there not?—I will take it from you. I am afraid I do not follow.

1339. Will you also take it from me that if the London County Council now wanted to raise money for these tramways which were subject to so much criticism, they could raise it at about 4½ per cent.?—Yes, on the security of the local rates.

1340. Certainly. But there has been a great deal of talk as to the terrible indebtedness of London, and, indeed, it has been asserted that London municipally is bankrupt because of its huge indebtedness; so that the rates themselves are not a particularly bright guarantee from that point of view?—I do not know. All I can say is that with regard to our claim under 58 (1) (b) the market prices to-day reflect practically at what rate we can raise the money, and it is not 4½ per cent.

1341. Mr. Locket: What are the market prices of your stocks to-day?—They are about 80 odd for debentures.

1342. And the 4 per cent. preference?—About 81 or 82.

1343. Mr. Morrison: The London, Midland and Scottish Stock is rather a gilt-edged stock, is it not?—Yes, I admit that.

1344. Yet, as compared with municipal socialism in connection with the London County Council tramways, the rate of interest you require to pay is 3½ per cent. more than the London County Council for its tramways?—Evidently that is how investors view it.

1345. Are you aware that even Metropolitan Borough Councils in respect of electricity undertakings can raise money at about 4½ per cent.?—I am glad to hear it.

1346. They are very small undertakings, whereas the London, Midland and Scottish is a great railway undertaking covering the whole country?—I do not see how all this will affect the present market price.

1347. Cannot you raise money at less than 6 per cent. now?—On the average, as I explained, no.

1348. But you have admitted that on Debentures and Preference Stocks you can raise money at 5 per cent. and 5½ per cent.?—Yes.

1349. And you are charging 6 per cent.?—Because we have proceeded on the assumption that the stocks are to be taken as raised in thirds. You cannot raise all your requirements in debenture stock. If you did so you would depreciate the security of the holding of the existing debenture-holders; and, as a fact, you reduce the value of those stocks that are junior stocks to the debentures by putting a larger fixed charge in front of them.

1350. You may raise part of the additional money, or it may have been raised, by the capitalisation of reserves?—I know it can be done in a limited liability company, but I do not know whether it can be done by a railway company.

1351. With regard to the items of expenditure under (1) (b), have any of those come out of reserves?—No. The moneys may exist because of the reserves. We have not charged any of the expenditure to a

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reserve account. The expenditure is charged to capital expenditure.

1352. And none of it would be properly charged to the reserve?—No, not in my opinion to the reserve fund.

1353. With regard to Section 58 (1) (c). The items there must be £25,000 or more?—Yes.

1354. Were these items returned in the published railway accounts separately at some time or other, and the costs given?—I have no doubt they would appear in Account No. 5 of the various companies. That was the source from which we obtained them.

1355. In detail?—Not always in detail. As you know, the capital expenditure Account No. 5 is summarised in many respects.

1356. If a work cost £24,999 it would be excluded?—It would be excluded from our claim. Unfortunately one has dropped in. It has been pointed out to me.

1357. Will you tell me what you think is the interpretation of "not fully remunerative" within the meaning of (1) (c)?—That the earnings from the work are not at their full capacity.

1358. You mean that the capital is not being fully used, shall we say, that the load factor, as the electricians and the railway traffic managers say, might not be at its potential height?—Quite so.

1359. And in applying that principle you have gone on the basis that the time during which the capital has been raised is the determining factor as to how far it is fully remunerative or not?—I think I have explained more than once that we have used an arbitrary formula, taking a period of 15 years, assuming that on the average capital expenditure earns $\frac{1}{2}$ per cent. in the first year, and in 14 years upon the average it earns 3 per cent.

1360. Would you not agree that it is possible for an undertaking freshly coming into use, or the addition of some plant, or a new hotel for example—is it possible for such an undertaking immediately it comes into use to be remunerative having regard to the capital employed in it?—Yes, it is possible.

1361. On the other hand it may be that another extension or undertaking which had been completed for 20 or 30 years might not, even then, be remunerative?—That is possible, too. We have gone upon an average.

1362. You have gone upon time alone?—Upon an average, using time.

1363. And putting every six months in relation to a certain increase or decrease as to the percentage you are entitled to charge against capital expenditure?—The percentage which we claim to be

allowed as the measure of fructification of that half-year.

1364. And time is the determining factor as to how much you allow?—Yes.

1365. Would not the better method have been to have examined the particular extension or undertaking concerned and to have seen how far it was or was not remunerative?—That would be a particularly difficult work. I think I have explained to the Tribunal that it is impossible to follow out every item of capital expenditure and ascertain how far it is remunerative.

1366. Then really what you are now suggesting is that the terms of Section 58 (1) (c) are impracticable to be carried out?—To an extent, yes.

1367. Therefore that they have not been strictly carried out in the accounts before the Court?—We have explained what we have done exactly.

1368. Take the New Manchester Hotel. I have never been there and I do not know what sort of place it is; but assuming that during the period in respect of which you are making a claim it is used substantially to its full capacity, and guests are there—that the place was being used and was reasonably full, according to the average use of hotels—surely that would be a test of its being fully remunerative, setting aside the possibility of bad management?—Of one of the items in the account. But it might be counterbalanced by another item further down, for which the measure of non-fructification was greater than the percentage which we have claimed.

1369. That hotel cost over £1,000,000, and it was brought into use in 1903?—Yes.

1370. My impression is that it is fairly successful, though I have not been there, and fairly well used. Could you say in 1913, ten years after it was brought into use, it was not really going well?—That the measure of profit that may have been obtained there was not the full measure of profit it was possible to obtain.

1371. Apart from time, is the return upon capital the determining factor as to how far you claim or do not claim on capital of this class?—No. I say that time has been the thing we have decided upon here.

1372. Time is the factor?—Yes.

1373. The question whether it is remunerative in that sense, and the question whether it is well managed, and the question whether it is used as a hotel, not because the company wants it to pay but because the company wants to induce railway business—those questions are not brought into account?—No.

1374. It is a question of time?—Yes.

Cross-examined by Mr. WORMALD.

1375. You have had a lot of experience in railway accounts, I take it, in the matter of bookkeeping?—Yes.

1376. It has been your function to see that the books are properly kept?—Yes.

1377. In this double account system, with which you are well conversant, you have certain sets of books which show the difference between the capital expenditure and the revenue expenditure?—Yes.

1378. Are they double-entry books?—Yes, as a rule.

1379. Are there two distinct sets of books?—We generally have a capital ledger and a revenue ledger.

1380. Is there one general cash book?—Oh, yes.

1381. In that cash book you have, naturally, analytical columns?—Yes.

1382. One column would be for capital expenditure and another column for revenue expenditure?—You can bring it down to that, yes.

1383. Of course, it would be analysed out into different items which would come in the analytical columns; but the main columns are the capital column and the revenue column in railway accounts?—These are the main divisions in revenue accounts—capital, revenue, and personal.

1384. Do you supervise the entries that are made by the different bookkeeping officials?—At Derby I did not. I had all the vouchers before me, of course,

1385. So that really you could not say whether the revenue and the capital items were properly analysed?—That duty is performed by the auditors of the company as well as by the responsible officials in the accountant's office.

1386. At any rate, there could easily be arrears made in differentiating between capital and revenue?—No; because the capital outlay is specially sanctioned by the board of directors, and all outlay in connection with that is charged against the board order.

1387. That is the only test, the directors' dictation, as to which is capital or which is revenue?—The directors, before they approve of a work, have had the work examined by their officers; and the Accountant, as a general rule, is the person who advises as to how the cost of the work is to be divided between capital and revenue.

1388. And you are the gentleman who would do that?—I have done it for some time; not at Euston yet, but at Derby.

1389. When you have supervised and come to a conclusion that the analysis is correct, the auditors come on the scene, and they naturally check, I suppose, every item of differentiation between these two compartments of capital and revenue?—Yes.

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1390. They are really responsible for the distinction between capital and revenue, which is a very subtle one. Are they responsible, or are the directors responsible, or do they refer to the minute book and see whether there is a differentiation in every item?—They have available a copy of the board minute ordering the work, if it be a capital work.

1391. There may be all sorts of small items; say, a trifle of 25. Any small item might be classified between the two columns in a very slovenly way, possibly; one day it may go into the revenue column and the next day it may go into the capital column.

1392. *President*: Does that represent the practice of the railways as a rule, Mr. Quirey?—No. The outlay on capital work is charged to a special account in the ledger, and when the work is completed or the close of the year comes, the balance is transferred to capital expenditure or to revenue expenditure, as the case may be. That is in the case of ordered works.

1393. *Mr. Worrall*: So when you come to the consolidation of all the entries you find a ledger in which there is a separate account for every work; is that so?—Yes, you would find a subsidiary ledger with the works recorded in it.

1394. So that every question can be earmarked?—Yes, every ordered work by the directors can be earmarked.

1395. So the result of every ledger entry would be a debit entry showing the value of the work?—Yes.

1396. What is to check that debit entry in the ledger, so as to show that that is not merely a hieroglyphic and does not really represent actual work, and is, in the concrete, value for value?—I should be very pleased indeed to explain the system to you, but I cannot answer a question of that description; it is so outrageous.

1397. Will you say you do not know?—I do not know.

1398. Therefore it is a purely hypothetical value?—No, it is nothing of the sort.

Mr. Worrall: I am in the hands of the Court.

President: You are making your point clear. We appreciate what it is.

1399. *Mr. Worrall*: Therefore all these items of work—that is what the man in the street would deduce—the statements of figures are not actually represented by facts?—I do not understand that assertion at all.

1400. I will ask another question. Who values these works at any time?—There is not a valuation placed upon works after they are executed.

1401. We have heard of such things as adjustments. Are they ever adjusted to show the proper value?—Adjustments of capital expenditure?

1402. Yes.—If a work be displaced, for example, then the cost of that work is written out of capital expenditure; if that is the class of adjustment you mean.

1403. These results of entries in the ledger are keyed up, I suppose—debit entries of works?—Yes.

1404. How often are they keyed up?—There is not an inventory, or list, of capital works and the works then visited to see whether they still exist or not.

Mr. Worrall: My submission is that these figures are not to be relied upon.

President: So I gather.

1405. *Mr. Worrall*: Coming to the figures. These are the only figures I have been able to secure. We are a comparatively small society, and I hope I shall have your indulgence, Sir. I copied this from a leaflet which went round, and it seems to me to put the position. If I am wrong no doubt you will correct me. It is this sheet that was shown round yesterday. It appeals to me, as a man in the street, because you find to get somewhere, and the objective I want to find out is the objective I find in this sheet. It is a simple sheet, and it is full of good figures. It would not have cost the railway companies anything, but when I ask for a copy the railway companies would not give it to me?—I do not know what the statement is.

1406. It is "J.Q.I." It appears on page 81 of the Third Day's proceedings. Are these claims of the railway companies? It says in the first column:

"Claim under 58 (1) (a)" ?—Yes.

1407. That is the claim, £37,000,000?—That is the amount of the capital expenditure included in the claims against the Government.

1408. The result is £30,000,000?—No. The total of the claims under 58 (1) (a) is £39,861,596.

1409. Then there is a deduction of £7,192,571?—May I explain what that is? That amount of £7,192,571 is the amount included in the £37,000,000 odd for expenditure incurred prior to 1913 on works which were brought into use in 1913.

1410. My question on this is that the difference between the £7,000,000 and the £37,000,000—that is, £30,000,000—is actually the claim which is made as a result of all the calculations made by the railway companies?—No, that is the amount included in 58 (1) (a) claimed for expenditure incurred by the companies since the 1st January, 1913, to the 15th August, 1921.

1411. It is £30,000,000?—That is not the whole of the claim. The claim against the Government is the £37,000,000 odd. That adjustment is made for the purpose of arriving at expenditure incurred since the 1st January, 1913.

1412. Then under 58 (1) (b) it is £13,000,000, is it not?—Yes.

1413. So practically it is something like £44,000,000 you want to put on to the figures?—£44,000,000 represents the capital expenditure of the companies claimed in respect of the period 1st January, 1913, to 31st December, 1923.

Mr. Worrall: Quite so.

Mr. Jepson: What do you suggest it is going to be added to, Mr. Worrall?

1414. *Mr. Worrall*: I will show what I wish to elicit from the witness, if you will please allow me. (To the Witness): I think you said you were not a lawyer, but you were instructed to read the law into this Section 58 of the Act?—Yes.

1415. If I am wrong, of course, you will say so. Now come to the first, Section 53, subsection (1). It starts off, and then it goes on to (a), (b) and (c). The proposition is all contained in 53 (1). It says: "The charges to be fixed"—they are charges. Then it says: "shall be such as will, together with the other sources of revenue," Revenue, I take it, is the opposite to charges. Revenue is the result of the receipts?—That is right.

1416. Then on the other side you put the charges?—Charges are imposed upon the public.

Mr. Worrall: Quite so. Then we go along. It says: "In the opinion of the rates tribunal"; so really, after we have done all our talking, and the lawyers have—

President: You must try and address your questions to the witness, please, and not make speeches.

Mr. Worrall: If you please, Sir. I take it that after all these figures are brought into focus, you, Sir, with the other members of the Court, decide these figures.

President: Obviously. Now will you address your questions to the witness?

1417. *Mr. Worrall* (To the Witness): We go along. That is the interpretation of that part. Then it mentions "efficient and economical working and management," which has to be taken into account. "An annual net revenue (hereinafter referred to as the standard revenue) equivalent to the aggregate net revenues in the year nineteen hundred and thirteen of the constituent companies and the subsidiary companies absorbed by the amalgamated company." Then it comes again to the words "together with"?—Yes.

1418. Then it says "a sum equal"—(a) and then (b), and then we come to (c), which refers to the £25,000 works?—Yes.

1419. Do you take it that the meaning is to add (a) and (b) and (c) to what you get from 58 (1)—the

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[Continued.]

preamble to it?—That is what we have done in folio 1 of our exhibits.

1420. You interpret "together with" to mean that you are to add?—We have to add the allowance to the aggregate net revenues of 1913. That is our view.

Mr. Worrall: My submission is that it does not mean adding these things.

Further cross-examined by Mr. F. G. THOMAS.

1421. As I understand it, there was an Act passed, I think in 1913, by which the Midland Railway Company got authority to increase their contributions to the superannuation fund?—Yes.

1422. Following that, I think in 1914, there was a resolution of the directors by which they did put in force the powers given by that Act and resolve to increase the contributions to the superannuation fund, and to date back the increase to 1912?—To the 1st July, 1912, I think it was.

1423. I believe you are quite right. So that in respect of the year 1913 the actual contribution of the company to the superannuation fund was not the figure which appeared in Abstract E (I think it is) where that would come, is it not?—Yes.

1424. But a larger figure which was the result of this resolution in 1914?—No. As a fact, in 1912 the company carried into their expenditure an estimate of the amount required from the 1st July, 1912, to the 31st December, 1912, and the year 1913 included the original contributions authorised in February, 1914, as from the 1st January to the 31st December, 1913.

1425. That clears up the point. I thought it was desirable to have it cleared up; because, on the face of it, it appeared that a contribution was made in respect of that year as a result of a later resolution?—Yes; it might be taken that we had 18 months' contribution in 1913.

1426. No; that the contribution in 1913 was on a lower scale of contribution than was later found

Re-examined by the LORD ADVOCATE.

1433. I think you will have appreciated, Sir, that the questions on both sides of the Bar have been, to a large extent, argumentative—very properly and of necessity—and have brought out many of the points of principle that are in controversy. I do not think it is useful to re-argue questions with the witness because many of them are only for argument later; but the witness has been made a useful vehicle for the argument, and there are one or two matters to which I propose to address myself now. With regard to depreciation. When you proceeded to your examination of the accounts of all the constituent and absorbed companies as published, did you find that depreciation had been dealt with in the different accounts in different ways?—Yes, where depreciation was provided for.

1434. Did you find that some companies dealt with the matter through their renewal and maintenance accounts?—Yes, as a special provision.

1435. Did you find that others had a Depreciation Account under that name?—The charges are always dealt with through the Maintenance and Renewal Account.

1436. The charges would be, no doubt?—But if unspent—if the provision is made and not spent—the balance is carried to the depreciation fund.

1437. In ordinary accountancy practice are there various methods by which the result which a depreciation account is intended to achieve may be brought about?—Yes.

1438. Various methods?—Yes.

1439. There is no accepted and necessarily universal method of dealing with depreciation?—No.

1440. And as was to be expected, when you examined the accounts did you find that there were variations of method among the various companies?—Yes.

1441. But had the methods which had been pursued by those various companies all been subjected to the

President: You will urge that at a later time, will you not?

Mr. Worrall: If you please, Sir.

Mr. F. G. Thomas: May I clear up one point, Sir, in an answer Mr. Quirey gave to me with regard to the Midland Superannuation Fund?

President: Yes.

to be the proper contribution for 1913, and was in fact made?—You are assuming it might be taken that the increased contributions came into operation on the 1st January, 1914?

1427. Yes.—It is not so. The additional contributions were calculated and charged as from the 1st July, 1912, in the accounts of 1912 and 1913—the additional 2 per cent. we contributed.

1428. That is the point?—That is so. I had occasion to examine that more than once.

1429. I do not quite see how you get into the 1913 accounts a figure which it was not decided to contribute to those accounts until the 17th April, 1914?—We were whitewashed for our proceeding. The Act

was passed in the course of 1913, and we had the authority to contribute an extra 2½ per cent. on the members' contributions. The directors decided in the course of 1913 (I think it was in that year) to contribute an extra 2 per cent.

1430. It was 1914?—That is, the proprietors authorised the matter in 1914.

1431. No. On April 17th, 1924, at a board meeting of the directors, it was resolved by a minute to do it. That is the note I have?—I see. The additional contribution of 1½ per cent. and a further ½ per cent. were both charged in 1912 and in 1913. We can verify that.

1432. Mr. Locket: You anticipated the authority which was afterwards conferred upon you?—That is right.

audit which these accounts had had to undergo?—Yes.

1442. In short, the accounts represented the policy of the individual company in the matter of dealing with depreciation, and that policy reflected in the accounts had been the subject of audit?—That is so.

1443. And the accounts were, therefore, handed to you reflecting both the knowledge and the method and the mode of audit of these companies?—That is so.

1444. Of course, when you bring all the companies into a group you must have one method for that group?—That is so.

1445. Was the result therefore this, that you had (so to speak) to bring to a common denominator the varying practices which had obtained in the case of the companies then brought into one group?—Yes, and adopt a new method.

1446. It is suggested that as regards the accounts of 1913, the method or methods pursued by the various companies in their accounts for that year might now be reopened?—Yes.

1447. You have alluded to the difficulty of doing that, but of course difficulty would be no answer if the failure to reopen resulted in injustice to anyone?—I admit that.

1448. It is not because the question of reopening might involve difficulty that it should be abandoned if it is proper that it should be done?—Oh no.

1449. But are you satisfied that, taking the companies by and large, taking the various methods which were pursued by these companies, the methods now pursued by you in the amalgamated company are not more prejudicial, indeed are a reasonable equivalent of the result of the methods which obtained in all the constituent companies?—That is the decision to which we have come.

1450. Of course, a very considerable change has taken place since 1913, has it not, in the cost of re-

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[Continued.]

placing, and, therefore, in the allowances which must be made for depreciation?—Quite so.

1451. Sir Douglas Hogg yesterday used two epithets suggesting that now you proceeded on a more lavish and general scale in dealing with depreciation than the companies of which you are composed had dealt with that matter. What do you say to that?—The provisions now made are not lavish or generous, but necessary.

1452. Proper?—Yes, proper and necessary.

President: He did not compare them with what he was doing in 1913. You rather asked him to compare what he was doing now with what he was doing in 1913. You said Sir Douglas had said they were more generous or lavish.

1453. *Lord Advocate*: Than in 1913. The question I was putting was this: So far as you can judge, taking the varying methods—of course, some methods would be lavish and some niggardly among the companies brought in—what do you say as far as you can judge as to the provision now made by the amalgamated company for depreciation as contrasted with the sum (as one might put it) of the methods employed by the companies represented in the amalgamation—in 1913?—Taking the provisions of 1913 where provisions were made, and the expenditure upon complete renewals where no provisions were made, I think that when you take into account the additional units brought into use since 1913, together with the increased costs of to-day over 1913 prices, it is a fair comparison between the two periods.

1454. You mean that they are fairly equivalent?—They fairly represent the amount necessary in each period to renew the equipment and the way. The additional units are additional renewals of line, additional rolling-stock, and so on.

1455. But if the method pursued by you now proves open to criticism, is that criticism available to the traders when they come to examine the net revenue made in the years that are to be reviewed in comparison with the standard revenue which is now to be set up?—I take it the first opportunity the traders will have to examine our expenditure will be when we produce our estimate of a year's working expenses in continuation of our statement, folio 1.

1456. I want to see that no person is deprived of a remedy if there is anything in the criticism; I want to see at what stage they could use the remedy?—I think the first stage would be when we produce our estimate of working expenses before the rates and charges are fixed.

1457. At that stage they would have their opportunity, because in fixing the rates and charges you have not only to get the standard revenue—the x pounds we are in search of—but you also have to proceed to provide for the working expenses, and so on, the gross revenue which is to be obtained by the charges to be fixed?—That is right.

1458. At that stage we may have a criticism of the debit which is taken for depreciation, which may be said to be excessive or insufficient, as the case may be, by the traders?—In comparison with 1913, yes; and in itself.

1459. Not only so, but when the Rates Tribunal comes to review in subsequent years the rates charged, and to consider the revenue which you have made in contrast with the standard revenue, of course questions will then arise as to what revenue you have actually made, and it will be open to criticism?—Yes, the working expenses will be open to criticism.

1460. So that then an opportunity will be offered to anyone who is dissatisfied with the method in which depreciation has been dealt with by the amalgamated company?—Yes.

Mr. Jepson: The impression left upon my mind by the trend of the remarks made on behalf of the traders was this: that it is quite true we shall have an opportunity when we come to consider the company's estimates of expenditure which have to be added to the figures we are considering to-day, but an answer then may be given by the railway com-

panies on, say, the point of depreciation, to this effect, "Oh, but enough was not charged in 1913; that is very clear," and as that cannot be reopened, that is the danger the traders feel about it. That is how it is left on my mind. I do not say whether there is ground for it or not; but that is how it was put.

Lord Advocate: I got the same impression, but that is what they thought might be their risk. Of course, I can see this: if you said the depreciation on the present basis was the proper one, and that was proved to be different from the 1913 one, there would be a reflection on the 1913 one, which might be said to be improper. I suppose that is how it is put. I think the substantive answer Mr. Quirey was giving to us is the more important one, perhaps, that in his view, taking all the companies together, the provision made for depreciation in the 1913 accounts which are to be now stereotyped was not inadequate and was equivalent, having regard to the change of circumstances between now and then—equivalent to the method you, Mr. Quirey, are now adopting.

Witness: Yes, taking all the circumstances into consideration; not merely the depreciation charge but the full maintenance charge.

1461. Mr. Morrison put a point which, of course, is perfectly sound in one sense, namely, that depreciation allowances are always prophetic. They are, are not they?—That is so.

1462. And it is perfectly true that, after the event, you may say too much or too little was in fact at one time estimated by way of depreciation in the accounts of a particular year?—That is so.

1463. But from the accountancy point of view the question is whether the allowance made has been a reasonable allowance each year?—Yes, in each year, and in the light of that year's affairs.

1464. And if you were to revise a balance-sheet years afterwards, in the light of subsequent knowledge, no doubt the figure would be different, because you would be dealing with ascertained facts rather than with anticipations?—Yes.

1465. But if you are to compare—as we are exhorted by our friends to compare—1913 with 1924 or 1925 (let us say), 1924 and 1925 must also contain prophecies and anticipations, must not they?—Yes.

1466. Accordingly you would have to revise the accounts of 1925 which are to be compared with 1913 in the light of events happening after 1925?—That would follow.

1467. So that the process becomes interminable?—Yes.

1468. Therefore what is done in practice is to consider whether the provision, in an accountancy sense, is adequate at the time it is made?—Yes.

1469. It is very much such an item as one finds in an ordinary commercial balance-sheet where you have all debts put in at (let us say) 5 per cent. of their face value; that is a proper accountancy entry, although it may turn out that you get 60 per cent. or 70 per cent. of those debts recovered later?—Yes.

1470. The question is, what are the fairly framed accounts in a particular year on which the dividend may be struck?—Yes.

1471. Is it upon that basis you have proceeded here?—Yes.

1472. Of course, the auditors have to be satisfied upon that matter?—Yes, they have.

1473. And the Government has so accepted?—Yes, during the period of control.

1474. Apart from the question of justification for a reconsideration of the matter of the accounts of 1913, is the difficulty which you anticipate this: that while certain items would be open to criticism by the traders, you equally would have to advance arguments with regard to the other items which were in their favour?—Yes. There would be claim and counterclaim.

1475. Would you anticipate a vista of claim and counterclaim which it would take a very long time to exhaust?—Yes. There would be a very good ground for dispute.

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[Continued.]

1476. Each item might be disputed interminably?—Yes.

1477. Do you think that in the long run such a reopening would redound more to the benefit of the railway companies or to the benefit of the traders?—I said in direct examination that I did not think there would be much in it either way.

1478. Do you think there would be anything in it either way of sufficient importance to affect what is the ultimate goal of our inquiry if you are fixing the charges to the trader?—No, not when you consider that the aggregate net revenues are £45,000,000.

1479. Another topic which was alluded to was the question of hidden reserves, which seems to have rather a sinister sound. So far as the reserves in question are concerned, the sums do appear, I understand, in your balance-sheet?—They are included in the balance-sheet.

1480. The expression "hidden" means that they are not earmarked or labelled in a particular way?—They are not specially described in the balance-sheet as reserves.

1481. "Hidden" to the layman suggests gold hidden away in some safe in the country. It is not that kind of thing?—No.

1482. The amounts are actually in the balance-sheet of the company?—That is so.

1483. But not labelled or earmarked in any particular way. The source is not indicated?—That is so.

1484. Therefore, of course, this 4 per cent., which was retained to await the decision of the Railway and Canal Commission, was in the balance-sheet?—Yes.

1485. Mr. F. G. Thomas: As a liability?—Yes; being a reserve, of course.

1486. But not mentioned as a reserve?—No. Included in the items of Miscellaneous Accounts as a liability.

Mr. Wrottesley: Before the Lord Advocate passes from the last topic of this general question of the rate of depreciation, may we clear it up. May I say whether—

President: I think you had better ask that of the Lord Advocate.

Mr. Wrottesley: Yes, I want to do so before he leaves this topic.

President: You might ask him whether it is his pleasure that you should intervene at this time.

Mr. Wrottesley: It is really to clear up a point, and may, I think, shorten matters. As it admitted by the railway companies that the same scale is to be applied in the matter of the setting aside of moneys for the Depreciation Fund in 1913 as is to be set aside when we come to consider the gross expenditure? If that is admitted, of course we know where we stand.

Lord Advocate: It is perfectly impossible to make an admission of that sort, because there were any number of scales and methods in 1913; therefore I cannot say that in 1924 or 1925 the method of 1913 is to be pursued because there was not one method in 1913.

Mr. Wrottesley: The sum total of those methods. Lord Advocate: The result of the various processes adopted in the different companies is, I understand, what has been given effect to. But I cannot possibly give an undertaking in the general terms you ask that the result of a series of facts in 1913 should be given effect to in subsequent years. I do not know what it is.

President: Mr. Wrottesley is trying to bring it to a head.

1487. Lord Advocate: I appreciate the value of his question, but it is not possible to answer it. Who can say whether the method in the London, Midland and Scottish is or is not precisely the same as if you had disintegrated the London, Midland and Scottish Railway into its components again and applied to those components the method of 1913? It is not possible. That is the difficulty. You cannot reconstruct the past. I would answer it categorically if I could,

but I cannot. (To the Witness): Will you look for a moment at 58 (1) (a). It was suggested in the course of your cross-examination that the Government had rejected a considerable number of items which had been claimed for during the period of control. Do you remember?—Yes.

1488. I think you have gone into the matter to see what items were, in fact, claimed but disallowed?—I attempted to get the figure from the Railway Accountants Committee, but I have not been able to get it yet.

1489. It has now come. What you have instructed to be done has been done, and has just come to hand. Shall we put this in, Sir?

President: I have not seen it yet.

1490. Lord Advocate: It gives the information which was asked for yesterday with regard to the items claimed but disallowed. I will have them put on the note. (Documents handed in. See Appendix.—J.Q.2 and J.Q.3.) (To the Witness): You were asked, in view of the questions put to you yesterday, that the claims by the railway companies should be looked over to see what items of capital expenditure had been claimed for but disallowed?—Yes.

1491. "J.Q.2" and "J.Q.3" are really somewhat explanatory. You have the name of the company, the claim made, the date of the expenditure, the amount and the nature of the work, and the reason given for disallowing?—Yes.

1492. The reasons are very miscellaneous, and I do not know that we need go into them. But is the upshot of it this, that they are all relatively small items?—Yes, all small.

1493. I see one at the end of £54,057, which is the only one that is substantial. That was disallowed, not brought into use?—Not brought into use in the year 1920. If brought into use in 1921 it would be allowed.

1494. So that you were a little bit previous with that claim?—The London and North Eastern were the delinquents.

1495. If someone were too previous with that, it was knocked out?—Yes.

1496. We come now to "J.Q.3." At the later stages of control it was necessary, was it not, to get the sanction of the Minister in advance?—Yes.

1497. Does this apply to items coming under that?—Yes.

1498. The date of expenditure is prior to 1912?—That, of course, was the line upon which the work was erected or constructed.

1499. However, you have given us there a record of all the cases in which the Minister has turned down claims which were put forward for all the companies?—Yes, as recorded by the Railway Accountants Committee.

1500. On head (b) Sir Douglas Hogg suggested what was a novel, interesting reading of the word "provided." You heard that, I think?—Yes.

1501. He suggested that it meant provided by a parent company to a subsidiary company?—Yes. That was in the case of the Portpatrick and Wigtownshire line.

1502. It was the one he used to exemplify the point. If "provided" meant capital which was provided by a parent company to a subsidiary company, would the consequence be that a large amount of the capital expenditure of the railway companies would be altogether excluded from remuneration?—Yes, a very large proportion.

1503. In short, all the expenditure which has been made since the 1st January, 1913, on capital account not included under (a) and for which you did not go to the public by raising new stocks or shares or borrowing on debentures?—That would be the effect.

1504. The whole of that capital expenditure would once and for all be excluded from ever being remunerated?—Yes.

Mr. F. G. Thomas: As capital?

Lord Advocate: Yes, that is so. It would be spent, and there would be nothing in the rates and charges to represent that capital.

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[Continued.]

Witness: There would be nothing in the standard revenue to represent the earnings of that capital.

1505. Therefore, if you are going to fix the charges at the end of the day the charges would not be sufficient to give any return on that capital expenditure?—That is so.

1506. Of course, the consequence may not be the reason for interpreting the Statute, but the consequence would certainly be very drastic to the railway companies, would not it?—Very unfortunate.

1507. Have you ever heard that reading of “provided” suggested before?—No.

1508. On the same head (b), there are two words which were discussed between you and Mr. Cripps. I think—the word “remunerate” and the word “additional.” When you were framing your accounts, whom had you in view as the person, or what had you in view as the entity, to be remunerated? It says, “remunerate” in capital. It means someone gets remuneration at the end of the day. Of whom were you thinking as the person to be remunerated for that capital raised or provided?—The person who would subscribe the capital—the proprietor.

1509. What did you understand the capital was to be additional to?—Additional to the capital existing in 1913 plus the capital since raised.

1510. That, of course, is in conformity with your general interpretation of the scheme of arriving at the standard revenue, prescribed to us by Section 58?—Yes.

1511. As regards your 1913 capital expenditure, you are not concerned, except to a certain extent, under compartment (c)?—That is so.

1512. Is the assumption on which you proceeded that your 1913 capital is remunerated by the revenues of 1913 already?—Yes.

1513. And (c) was a sort of safety valve, that if it was not being represented in the 1913 revenues you would have a chance of putting in anything there to supplement the revenue?—I should have said before that the capital of 1913, in so far as it was not fully fructified, was remunerated by the net revenue of 1913.

1514. (c) is really a safeguard against capital expenditure which has been made from 1913, but was not then fully reflecting itself?—In the earnings of that year.

1515. While it is true that the average rate on capital of your companies in 1922 was 4-62, and in 1923 was 4-4, or thereabouts, is that figure in any way an index to the cost of raising the capital to provide expenditure under head (b)?—None whatever.

1516. When the yield goes down, then I suppose the quotation goes down on the market?—Yes.

1517. When you want £100 for actually meeting accounts incurred by you, you have to get the full £100 on the market?—In cash.

1518. And you have accordingly to give a return to the lender, or the investor, which will induce him to provide you with £100?—That is so.

1519. And is the inducement which you have to give now, having regard to the different classes to whom you resort for capital, in the region of 6 per cent.?—On the basis on which our calculation was made; that is, that the capital was raised in thirds—third debenture stock, third preference and third ordinary.

1520. It has been suggested from some quarter that you might get the whole of it from debentures—let us say—which are the cheapest rate?—Yes.

1521. When you raise capital, is not provision always made that the debenture issues shall bear a certain proportion to the stocks?—The debentures are so conditioned.

1522. Therefore you have not the option of raising all your money in one class, have you?—No. There is, of course, a condition that a certain proportion of the shares and stock must be issued before the debenture stock becomes available.

1523. That is statutory, of course?—Yes, that is statutory.

1524. It has been so arranged that there should be a balance maintained between the categories, and that has been prescribed by Statute?—That is so.

1525. That, of course, has a good sound financial reason? You must keep the balance true?—Yes; otherwise your ordinary stock would become a purely speculative transaction.

Mr. F. G. Thomas: It has been a good deal departed from in recent years.

1526. *Lord Advocate:* I am afraid there has been a good deal of unsound finance in recent years. (To the *Witness*): Then I think on (c) you were cross-examined at considerable length as to your formula. You have proceeded upon the initial date, the date of bringing into use?—Yes.

1527. Of course, if you selected the other date which Mr. Cripps put forward, the date of actual expenditure on the work subsequently brought into use, you would have to have a different formula. You prepared your formula to give effect to a different view; but if you change the date then you have to have a new formula?—Yes; we would put the figure of 5 per cent. perhaps a trifle higher up.

1528. It was suggested that work, from the point of view of paragraph (c), is to looked at from the point of view of the capital expenditure made upon it?—That was our view.

1529. Do you proceed upon the basis that if you spend £25,000 at any time on a work, or on part of a work you are going to utilise, you are entitled, to bring it in?—Yes.

1530. It was suggested that a work carried out in fact on a “J” joint line would not enhance the value of the London Midland and Scottish undertaking which was interested in the joint line. Do you remember that point?—I do not know whether it was regarding the enhancement of the value; but it was not an expenditure on our own undertaking.

1531. It was put on the basis that it could not enhance the value of your own undertaking?—But the parent company get the result.

1532. If the company spends its money on the work, provides money for the work on a “J” joint line, then is not its interest in the “J” joint line improved?—Yes.

1533. Is not in that way the interest of the amalgamated company enhanced?—Yes; the additional earnings would come in.

1534. You were invited to regard the undertaking not as permanent way, stations, and so on, but as a whole?—Yes, the company.

1535. Is the expenditure which is represented by the work on a “J” joint line in which the parent company is interested, therefore for the benefit of the undertaking of the parent company?—Yes, it is.

1536. Would the money be spent otherwise?—Not at all.

1537. It was further put to you that land was not a work. Do you remember?—Not generally described as a work.

1538. No, I should not describe land as a work at all except as the work of God. But what we are in search of is capital expenditure on works. Is land a substantial element in the expenditure on works?—Yes.

1539. The works of a railway company are not aerial; they are actually on land, are not they?—Yes.

1540. In your settlements with the Government was “works” expressly inclusive of the land used for the works? That was so expressed in the pink pamphlet?—Yes.

1541. I do not think I need labour the point. One other matter arose on (c) with regard to free reserves. I would ask you to look for a moment at Section 11 (4) of the Act. I was rather called in question for saying the sums of free reserves were at the disposal of the directors, and if they were yielding anything, it was to some extent a windfall. Do you remember the phrase I ventured to use?—Yes.

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Mr. JOHN QUIREY.

[Continued.]

1542. Does it appear that these moneys were confided to the railway companies on the terms that the directors might employ them as a reserve fund for meeting contingencies or for repairing and improving and maintaining any of the property of the company, or for payment of interest or dividends, or for any other purpose for which the earnings of the company may be properly applied?—Yes.

1543. They could, if they pleased—but no doubt they would have thought it unwise to do so—have distributed the whole lot in dividends?—Yes.

1544. In the case of certain companies with which I am familiar, some of it was used for equalising dividends?—A large sum has been already paid out as dividends.

1545. In so far as the companies refrained from distributing it in dividends it remained in their hands available for all those purposes?—Yes.

1546. Possibly for equalising dividends in the future?—It could be so applied.

Lord Advocate: I do not propose, Sir, to re-examine the witness with regard to a large number of particular items of expenditure which my friends brought up, because the purpose was really to draw the attention of the witness to those particular matters. My hope would be that any points of that sort which were raised on a particular item might

(The Witness withdrew.)

(After a short adjournment.)

Mr. RALPH COPE, recalled.

Examination by Mr. BRUCE THOMAS continued.

1547. When your examination was interrupted yesterday we were dealing with Item No. 1 on folio 1 of "R.T. 4s," and you had explained the adjustment made in that item arising out of the re-stating of the Penarth Harbour, Dock and Railway Company's accounts for 1913, which had resulted in bringing back into the aggregate net revenue of 1913 a sum of £9,893?—Yes, that is so.

1548. That was one of the adjustments that you were dealing with, or that you dealt with, and then you explained the 4 per cent. increase and how the sum of £75,087 was taken out of the receipts and the net income for 1913 and put to suspense?—Yes, that is so.

1549. And I think you had stated that sum was included in Miscellaneous Accounts appearing on the debit side of the general balance sheet, Account No. 18, on page 12 of the Great Western volume of published accounts?—Yes, that is so.

1550. Now I just want you to take the question of the 4 per cent. a little further, and tell the Tribunal how it was ultimately dealt with by the Great Western Railway Company?—That sum of £75,000 was set aside in 1913, and every half-year, in December, the same sum was set aside until the settlement was effected; thereupon the Ministry of Transport allowed us to keep the money so set aside. That sum was in a reserve account, and, as necessity required, we withdrew from that account such sums as were wanted to reinforce the revenue account, but not all of it; it was brought into revenue in a great part after control, or, perhaps, during control.

1551. So that from time to time you took out of the suspense account certain portions that had been put there and brought them back into your revenue account?—That is so.

1552. And I think that the position to-day is that you have taken all back into your revenue account except £119,000, is it not?—Yes, that is the sum we still have in the suspense account, which we claim as a free reserve.

1553. Now I want to ask you a question or two about an adjustment which has not been made. We know that in the other groups upon amalgamation holdings which come of the constituents held in subsidiary companies that were absorbed, were can-

celled on amalgamation, but not by this Court; because we cannot investigate £1,000 spent on something and another £1,000 spent on something else. They will be used, I take it, to exemplify the desirability of one course or another in dealing with the accounts, and I shall deal with them in that way if I may.

Mr. F. G. Thomas: These points were put rather by way of illustration. They are not exhaustive in any sense.

Lord Advocate: That is so. Just as you will understand that some of my points were put illustratively. I wanted to illustrate to the Tribunal the points which their rulings will determine.

Mr. F. G. Thomas: And which are in the way of an investigation and consideration which may result in materially shortening the labours of the Tribunal when we get to close quarters and know what we have to deal with.

Lord Advocate: What I was noting in the cross-examinations was that when my friends touched upon questions of principle the principles were challenged. I took a note of those points where we were reaching common ground, but there were others where there was a divergence between us. I think that proves the wisdom of the course we have adopted.

President: We are obliged to you both.

celled on amalgamation, and consequently an adjustment has been made by taking out the return on those stocks from Item No. 1. That is what has happened in the other Groups, is it not?—Yes, I believe that is so.

1554. Now, in the case of the Great Western, who also held stocks in constituent or subsidiary companies, on amalgamation those stocks were not cancelled, were they?—No, they were not cancelled.

1555. I want to take just one as an illustration; the Alexandra Docks and Railway Company at Newport. I think that company was a constituent company in the Great Western Group, was it not?—Yes, it was.

1556. And, consequently, taken into the amalgamation when the Great Western existed in 1913 the dividend upon its holding was brought into its net revenue account or into its net income, I will call it?—Yes, into the No. 8 Account. You will see it shown there on page 6 of the Great Western Company's book, Account No. 8, Alexandra, Newport and South Wales Docks and Railway Company under Interest and Dividends from Investments in other Companies, £2,071,068.

1557. Now, upon amalgamation certain stock of the Great Western Company was allocated to the Great Western Company in respect of that holding in the Alexandra Docks?—Yes, £90 of 5 per cent. Consolidated Preference stock for every £100 we held of the Alexandra Docks 4½ per cent. Second Preference Consolidated B stock under the scheme of amalgamation.

1558. The dividend on that stock will be added to, and included, in the other sources of revenue with which the product of the rates to be fixed by the Tribunal are to yield the Standard Revenue?—Yes.

1559. And so it has not been necessary, in your view, to make any adjustment in respect of those stocks which have not been cancelled?—That is so.

1560. I think that concludes everything I have to ask you on Item No. 1, and there is only one matter I want you to deal with on Item No. 2. Perhaps before I pass from that question of non-cancelled investments I ought to refer to Ministry of Transport Document No. 3, on page 2, at paragraph (iii), which is the first paragraph in the middle of the page under Great Western.

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MR. RALPH COPE.

[Continued.]

Sir Douglas Hogg: Is this the second document?

1561. *Mr. Bruce Thomas:* Yes. (*To the Witness*): Have you got that before you?—Yes.

1562. Now I see there under Great Western the Minister draws attention to this: "Note 2 (a). A sum of £3,476 was eliminated from the Ministry's aggregation of Interest on Investments in respect of duplications arising out of investments in other companies now in the group. These duplications were not cancelled on amalgamation and the elimination has now been reversed, the case being the converse of that mentioned in (1.) above."—Yes.

1563. "The correction appears to be necessary"—that means the elimination which had been made has got to be reversed; it has got to be written back?—Yes.

1564. "The correction appears to be necessary as the income from the stocks held by the company will fall into Net Revenue, but if at a later date the company were to cancel or dispose of this stock, which is now Great Western Railway stock, it may be necessary to consider the bearing of the transaction on Standard Revenue. An alternative method would be to reduce the 1913 Net Revenue by this amount and to eliminate the future dividends from Net Income for purposes of Standard Revenue. It does not appear to be material which method is adopted provided it is consistently followed."—I agree with that.

1565. I thought I just ought to draw attention to that, because apparently in the view of the Ministry of Transport it seems that this is at least one of two correct methods of dealing with the matter. There is only one item I want to ask you about on Schedule B, which contains the details of Item No. 2 shown on Folio 1; that is the loan or, rather loans, made to the Cardiff Railway Company, and I think to illustrate this and to explain it you want to turn first to page 64 of the Great Western volume of accounts where the accounts of the Cardiff Railway Company for 1913 appear?—Yes, I have that.

1566. It is the first figure, Sir, on the debit side of the general balance sheet No. 18, to loans, £145,200. What were those loans?—That was a loan by the Marquess of Bute to the Cardiff Railway Company, because they could not raise any capital. He lent them the money, and you will find on page 60, Account No. 9, the interest on that loan which was paid to him.

1567. It is just above "Royalties," interest on loans, £13,356. Is that 3 per cent. on the £445,000 which appears in the general balance sheet?—Yes.

1568. How have you dealt with that; as I see, you have brought it into Schedule B?—I have deducted nothing from No. 1 for interest on this loan; in other words, it has been treated as money available for the service of stock as the dividend fund because—may I explain it?

1569. Yes, please?—Because under the amalgamation scheme with the Cardiff Railway Company you will find that for this loan as well as for another loan of £547,666 for ordinary shares £2,600,000 of the Cardiff Company, the Great Western gave in exchange 100,000 4 per cent. debenture stock, 420,000 5 per cent. consolidated preference stock, and 268,000 consolidated ordinary stock; the tribunal created stock in exchange for the loan.

1570. Does this summarise the position correctly; the Cardiff Railway Company wanted fresh capital?—Yes.

1571. It was not presumably convenient to get it from the public in the ordinary way, and they raised it by means of a loan from the Marquess of Bute?—Yes.

1572. Then upon amalgamation when the undertaking of the Cardiff Railway Company was transferred to the Great Western part of the consideration was the discharge of that loan which had been advanced for capital purposes?—Yes.

1573. And under the amalgamation scheme stock of the Great Western Railway Company was issued in order to be handed over to the Marquess of Bute,

I presume, who had advanced the £445,000?—Yes, that is so.

1574. Is that correct?—Well, I am not quite sure whether it was handed over to the Marquess of Bute or to Mountjoy, Ltd., who subsequently took over the property; either to the Marquess of Bute, or his successors.

1575. *Mr. Locket:* This loan was capitalised?—That is so.

1576. *Mr. Jepson:* It was capitalised in such a way as to bring in practically the same amount as £445,000 did at 3 per cent.?—Presumably so, but the scheme did not say that, but it was taken into account. He got £18,000 on that; he got nothing on the second loan, and he got 1 per cent. on his Ordinary Stock. The whole thing was put together and he got this amount of stock which I have stated in exchange for the three.

1577. *Mr. Bruce Thomas:* I see in the Ministry of Transport Document No. 3—the same document which I referred to a moment or two ago—again on page 2 in paragraph No. (IV.) the Minister makes an observation upon this particular transaction, does he not?—Yes, this and one other.

1578. Just for the moment let us treat it as dealing with this alone. "Note 2 (b). A sum of £18,000 was included in the Ministry's aggregation under General Interest in respect of interest on loans not credited to Capital Account." Now, that sum of £18,000 includes the £13,356 which is the 3 per cent. interest on the loan of £445,000, together with another similar item?—Yes, that is so.

1579. "On amalgamation stocks were issued in redemption of these loans, and the £18,000 has now been transferred to Interest and Dividends. The effect of the transaction is analogous to that mentioned in (II) above." I think that what is meant by that is that the correction makes, just reading the last two lines of that paragraph, the 1913 accounts strictly comparable with those of a future year?—I agree to that.

1580. That is correct, is it not?—Yes, I think so. In my opinion, that is correct.

1581. And I think Mr. Quirey, when he gave evidence, referred to this item and stated in his evidence that that, in his view, made the accounts of 1913 strictly comparable with those of a future year?—Yes.

1582. Now, the other item that the Minister had included in that £18,000—is that the same sort of transaction?—Yes, very much.

1583. I do not think, perhaps, we need go into the detail of it.

President: I think you have called attention to it, and the other side can raise it, if they desire.

1584. *Mr. Bruce Thomas:* If you please, Sir. (*To the Witness*): Item No. 3 on folio 1 of "R.T.4a"; that is the company's claim under Section 58 (1) (a)?—Yes.

1585. I do not think that there is anything you wish to add to what Mr. Quirey has already stated?—Nothing whatever. The claim has not been finally dealt with by the Ministry of Transport, but will very shortly be.

1586. Now comes Item 4, which is the company's claim under Section 58 (1) (b), "the allowance necessary to remunerate adequately additional capital raised or provided in respect of expenditure on capital account incurred since the 1st day of January, 1913, and not included in the previous claim." It is in compiling this claim that the Great Western Railway Company have adopted a different method in connection with giving credits to this than the other three groups?—Yes, I think that is so.

1587. Now in order to get the contrast quite clearly I am just going to put to you, to see if it is correct, the method that has been employed by the other three groups and then the method that you have employed. First, the other three companies have appropriated the net amount expended in each of the years from the 1st of January, 1913, to the 31st of December,

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[Continued.]

1922, as shown in the second column of Account No. 4?—Yes, I believe that is what they have done.

1588. They have aggregated those columns, and to that they have added the expenditure shown in the amalgamated companies' account up to the 31st of December, 1923?—Yes.

1589. And the sum of those two totals is their claim under Section 58 (1) (b)?—(a) and (b); partly (a), and the whole of (b).

1590. So far as (b) is concerned it is after eliminating any items that may have been included in (a)?—Yes.

1591. Now, the Great Western, on the other hand, have aggregated the total expenditure on capital account in the various constituent and subsidiary companies' accounts as shown on the 31st of December, 1912?—Yes.

1592. That is the total?—That is the total of it.

1593. And deducted from that figure the total shown in the Great Western Company's account at the 31st of December last?—They deducted that sum from the total expenditure shown in the Great Western Group account at 31st of December, 1923.

1594. And that is the claim which has been entered in your "R.T. 4a" under Item No. 4?—Yes.

1595. Again eliminating any items that fell within sub-paragraph (a)?—Yes; I thought that was understood.

1596. Your method is more favourable to the traders than that which has been employed by the other companies?—Yes, I imagine it is.

1597. And the question that the Court will have to decide is which of the two methods is the correct one?—Yes. Probably I am wrong.

Mr. Jepson: Did I understand Mr. Cope correctly. I thought you put the question: The difference was between the amount of capital standing in the amalgamated company, the Great Western Company, as amalgamated in 1923, and what stood in the Great Western account in 1913 when it existed only as an individual company.

Witness: No, the Great Western and the units.

Mr. Jepson: I did not follow that, but I thought it must be so.

Mr. Bruce Thomas: That is what I intended to put to the witness.

Mr. Jepson: I do not think you did say that.

Witness: I tried to correct it.

Mr. Jepson: I thought Mr. Bruce Thomas put the question in that way.

1598. Mr. Bruce Thomas: It is the total expenditure shown in the Great Western account, 1913, and the other constituent and subsidiary companies in the same year?—That is so.

1599. And from the total thus ascertained you have deducted the total shown in the Great Western Amalgamated Company's accounts at 31st December, 1922?—Yes, the total as disclosed by the 1912 accounts as being deducted from the capital expenditure account of the Great Western Group Company of 31st December, 1923.

President: You put it the other way round, Mr. Thomas.

1600. Mr. Bruce Thomas: Yes, Sir; I deducted the greater from the less, instead of deducting the less from the greater. (To the Witness): First of all, in the method that has been adopted by the other three companies, credit has been given only for displacements and sales since the 1st of January, 1913?—Well, I cannot say that of my own knowledge.

1601. I think, broadly speaking, that is how it was put by Mr. Quirey?—Yes.

1602. Employing your method the result has been to give credit not only for displacements and sales since the 1st of January, 1913, but also for displacements or adjustments of capital arising in connection with the amalgamation?—Yes, and for displacements which occurred considerably before 1913.

1603. I will come to those in a minute. Those adjustments have not been the subject of any cash transaction?—That is so.

1604. And have not in any way altered or modified the revenue-earning capacity of the undertaking?—Yes, I agree with that.

1605. That is correct, is it not?—Yes.

1606. Now I want you to give one or two examples of the sort of adjustments that have been made in the method that you have adopted. Will you first take one that was mentioned yesterday, that of horses?—No, not horses. I think that was the Lancashire and Yorkshire.

1607. Very well. Let us take then the funding of the Brecon and Merthyr arrears of interest. Will you just explain that adjustment?

Sir Douglas Hogg: Where do we find that?

Witness: That is on page 116 of the Great Western Book, in Account No. 4, Receipts and Expenditure on Capital Account, the last item but two on the debit side of that account, the expenditure side, balance of supplemental revenue account, etc., £69,009 5s. 7d. When these accounts came to me I concluded that that was not common, that the Great Western Company should have it in its capital account, there being no asset for it, and I took it out, and the statement B has accordingly got credit for it.

Mr. Bruce Thomas: Can you give an example by way of illustration?

1608. Mr. Jepson: May I just ask a question on this? What do you understand the £69,000 represents in the Brecon and Merthyr accounts for 1913?—At that time arrears of preference dividend, I believe.

1609. Owing?—Yes, and they funded it. They could not pay it out of revenue, so they issued stock for it.

1610. Was it allowed, if it had not been earned—I mean, supposing the revenue was not sufficient?—Accumulative preference stock; they would be entitled to earnings out of any future year.

1611. But supposing it had not been earned at all during the period when this liability was raised, was there a liability on the Brecon and Merthyr?—Yes, because the stocks must have been cumulative. If they had not been cumulative stocks, then there would be no liability; but if it were a 4 per cent. preference stock cumulative, then they could claim the interest on ordinary stock in arrear out of the profits of future years. To get out of that liability they funded it.

1612. And when the Great Western took it over they took it over with that obligation to make good that £69,000 in some way?—Yes. I took the £69,000 out of capital and charged it against one of my reserves; not against revenue.

1613. Mr. Locket: It was paid to the holders of the stock eventually?—They got stock for it, and they have had the interest on that stock for it since.

1614. They got consideration for it?—They got consideration for it.

1615. Mr. Bruce Thomas: Had you any instance of the adjustment made by writing-out of capital account sums which still stood in the accounts of the constituent or subsidiary companies in respect of assets that had been lost and not replaced prior to 1913, of course?—Yes, a number of them.

1616. So that, in your method, those credits have been given to the trader?—They have.

1617. Is it correct to say that these adjustments on amalgamation of the type that you have just been referring to were, in the main, adjustments of a book-keeping nature which did not involve any cash transaction?—Yes, it may be taken so.

1618. And did they either increase or diminish the revenue-earning capacity of the undertaking?—No, it cannot be said that they did.

1619. Mr. Jepson: If you take the £69,000 relating to the Brecon and Merthyr, that £69,000 as it stood on the Brecon and Merthyr books was certainly not revenue-producing; it was a debt that the Brecon and Merthyr owed to certain shareholders. That was funded, and you said that you wrote it off from one of the Great Western reserve

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[Continued.]

accounts, but you issued stock to these people in connection with it?—The Brecon and Merthyr did. Yes, years ago they held certain stocks in exchange for their debt, and those stocks were changed into Great Western stocks on amalgamation.

1620. The Brecon and Merthyr funded it; not the Great Western?—No; we should not do that.

1621. I was thinking, if the Great Western had issued stock for it, the Great Western would have had to pay interest on that stock, and it would be a bad comparison as between 1913, when no interest was being earned on the £69,000.—Yes, but this was many, many years ago; perhaps 20 or 30; quite 30, I should think. When the Brecon and Merthyr were in difficulties, they could not pay the interest on their preference stocks, and in order

to get rid of the incubus of debts they funded the arrears; created stock for it.

1622. And then you gave equivalent value of the Great Western stock?—Whatever the Brecon and Merthyr got for that particular class of stock.

1623. *Mr. Bruce Thomas*: I am not going to Item No. 5, the allowance in respect of capital expenditure on works which at the beginning of 1913 had not fully fructified. Have you included in your Schedule E, under that item, a similar class of items that has been included by Mr. Quirey?—Yes, practically similar classes.

1624. You have adopted exactly the same formula that he has?—Yes, works over £25,000.

1625. Is there anything that you wish to add under that heading to what he has already stated?—No; I am in agreement with Mr. Quirey.

CROSS-EXAMINED BY SOLICITOR GENERAL.

1626. I want to ask you one or two questions with regard to the second schedule; you know the document. Have you got that before you?

Sir Douglas Hogg: We are calling it Document No. 3.

1627. *Solicitor-General*: F.5,210?—I think this is the one, but I am not sure.

1628. You know that there was some question about the reconciliation of the figures there as between you and the Ministry of Transport?—Yes.

1629. Now, apart from general reserves, you have these various items, beginning with the Brecon and Merthyr, reduction of suspense account, Brecon and Merthyr, £4,000. Do you see that?—I know what you mean. I know the point, but I have not got that before me.

1630. Will you just have it in front of you?—Yes, I know all about it.

Mr. Jepson: What page is that?

Solicitor-General: That is Schedule 2; it is the third page of F.5,210, Great Western Railway's standard revenue reconciliation of aggregate figures for the year 1913.

Mr. Jepson: I have only two pages here.

1631. *Solicitor-General*: At any rate, you will see at the top the document I am putting to the witness. First of all, the railway company set forth a total sum of £7,174,500, and then the Ministry of Transport take exception to certain reserves other than general reserves, beginning with the Brecon and Merthyr, £4,000. Perhaps you will give us some further explanation about that. Take Brecon and Merthyr, £4,000, the suspense account; you treat that as an appropriation of net revenue?—Yes.

1632. I suggest to you that really it is an expense, and ought not to appear there as part of the reserve?—I suggest that it is not.

1633. Will you explain why?—When I took it over from the Brecon and Merthyr it was shown in their books as a general reserve and other special purposes. It was a general reserve really, and had nothing to do with the liabilities of that year.

1634. I want to know the nature of that reserve. Can you give us any information about it?—No, I am afraid I cannot; I was not in the Brecon and Merthyr Railway Company.

1635. Have you got the books of the Brecon and Merthyr?—I am telling you how it stands in their books as a general reserve and other special purposes, £4,000.

1636. Could you obtain for the information of the Tribunal how that came to be so described in the Brecon and Merthyr books?—Well, you would have to get the whole of the directors of the company, would not you, to say why they caused this appropriation.

1637. You see, it is one of those points where we wish to get, if we can, an agreement, and the evidence, if it be called for the opinion of the Ministry of Transport on this point, is that probably that ought to be regarded as an expense. We are asking whether you can give us information as to the nature

of this reserve; how it came to appear in that form?—It was never so used. It came to me as a general reserve, and as such it has been treated in the Great Western books as a free reserve.

1638. I ask you whether, for the assistance of the Ministry of Transport and the Tribunal, you will endeavour to make inquiries as to what really the nature of that £4,000 is, and how it comes to be so described?—It would be a difficult matter. The men who did this have all gone. The amount in dispute is really of no consequence. Personally, I do not care one way or the other which way it goes.

1639. We think it is of consequence, and we ask you, if you can, to obtain the necessary information?—I do not see how I am going to do it. I would willingly help if I could. I will do what I can, of course.

1640. *Mr. Jepson*: What do the words suggest to you, that this fund was a reduction of the suspense account?—No.

1641. It suggests to my mind that they have opened a suspense account for certain expenditure which they did not debit in any one year, and then at some time, or at various times, they credited this fund of £4,000 to reduce that expenditure which was in suspense?—No, that is not so. The reserve came to me clean, without any charge against it whatever.

1642. Who puts this deduction on the suspense account?—It might have been so shown in the account. The heading in the Brecon and Merthyr account for 1913 is "appropriation to reserve and other special purposes, £4,000."

1643. *Mr. Locket*: Where is that to be found?—That is on page 118 of the Great Western Book. That is how it came to me. I can only say at present that it was credited to a reserve account; it was never touched for any purpose, and it came over to the Great Western on amalgamation as a clean reserve.

Solicitor-General: It is stated in the Brecon and Merthyr Railway of 1913 statement of accounts "less special appropriation in reduction of suspense accounts, £4,000, as at December, 1913." You understand I am not criticising at the moment the way you are putting it; I merely want information. You see, the point is this: In the Great Western Book it is described as "appropriation to reserve and other special purposes" under Brecon and Merthyr, I agree. Now, in the statement of accounts for December, 1913, in the Brecon and Merthyr's own statement of accounts and report it appears as "less special appropriation in reduction of suspense accounts."

Mr. Jepson: I understand, Mr. Solicitor, that these were a reprint of the actual published accounts.

Lord Advocate: It is the directors' report the learned Solicitor is reading.

Mr. Jepson: Would you mind turning to the Account No. 9?

Solicitor-General: Yes, I have got that.

Mr. Jepson: You will see how it comes out there.

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[Continued.]

Solicitor-General: The curious thing is it is described differently. You will see, Mr. Jepson, yourself, it is described in Account No. 9 as "appropriation to reserve and other special purposes." Outside it is described as "less special appropriation in reduction of suspense accounts."

Mr. Jepson: This is a copy of it. (Indicating.)

Witness: This is a copy of the account, not of the directors' report.

1644. *Solicitor-General:* That is a copy of the account inside. Now, the next figure is the £14,602, permanent way, bridge and rolling-stock renewals on the 31st December, 1908. Have you got that?—Yes, you will find that at page 42 in the Great Western Company's Book, Account No. 9, "appropriation to reserve and other special purposes."

1645. Will you tell the Court why you say that that?—Permanent way, bridge, and rolling-stock renewals to 31st December, 1908.

1646. Why do you treat that as an appropriation?—It is nothing to do with the year whatever.

1647. And not as an expense?—It is not an expense of the year; it is an expense of the year 1908.

1648. You say it was an expense of an earlier year?—Certainly I do; it says so.

1649. Then we get expenditure on new works of the Alexandra Dock. Can you tell us about that. Do you know when that was incurred?—That is at page 104 of the Great Western Book, Account No. 9.

1650. Can you tell the Court when that expenditure was incurred?—The Alexandra Docks?

1651. Yes?—No, I am afraid I cannot.

1652. Was that continued up to the year 1913?—This is 1913 when the appropriation out of net revenue was made. I am told the appropriation was made in order to liquidate a suspense account to which had been charged items of expenditure incurred in previous years, and it therefore bore no relation to the working expenses of the year 1913. That is my information in regard to that.

1653. Now, reserve for renewals. Have you any further information on that—£6,000?—Yes. That appropriation was not in respect of any definite imminent works, but was placed to reserve to cover any unforeseen contingencies that might arise.

1654. That is not to any definite works, you say, but for future contingencies?—Yes. That is the information I have in regard to the Alexandra Dock.

1655. With regard to these appropriations other than general reserves in regard to this and other companies, you only speak for the Great Western Railway Company?—I am afraid I can only speak of the circumstances of the Great Western Railway Company. I know nothing about the North Eastern case. That I think I would prefer—

1656. Just one other matter, with regard to the claim under (1) (b), with regard to provision of capital from reserves. You take the same view that Mr. Quirey takes, that that is an enhancement of the undertaking, to transfer that capital from the reserves?—The Directors would not authorise the work to be carried out if it were not going to enhance the value of the undertaking.

1657. Do not you think you might answer my question more directly? Do you say that is an enhancement of the undertaking?—The expenditure does enhance the value of the undertaking.

1658. Are you taking into consideration the fact that you are depleting the reserve to that extent?—Yes. Even then it enhances the value of the undertaking, in my judgment.

1659. Will you explain why?—Because I consider that it does.

1660. That is not a proper answer to give me?—I am sorry. The Directors would not authorise the work unless it was going to be ultimately for the en-

hancement of the undertaking. They cannot get capital for it at once, so therefore in order that the enhancement of the undertaking shall take place at once they use their reserves to pay for the works, or the money provided by the reserves.

1661. And that is the only reason why you say that transference from the reserve is necessarily an enhancement of the undertaking. That is your complete answer?—Yes.

1662. You will see, if you turn back to Schedule 2, "depreciation of investment, £69, Penarth Harbour Railway." Do you see that?—Yes.

1663. You appropriate that to revenue?—Yes, there is nothing in the point, of course; it is only a matter of £69.

1664. That is a matter for the Tribunal and the Minister of Transport. I am asking you why you appropriate it to revenue. You see, it is described as "depreciation of investment."—This money was furnished to them by the Taff Vale Company, and they had £69 over, and they did not know what to do with it, so they put it in their account as a reserve for possible depreciation on the few investments they had got; that is all.

1665. Do you propose in the future to deal with depreciation of investments in this way?—Is this, in your view, a right principle for dealing with depreciation of investments, that they should be appropriated in this way to reserve?—Depreciation of investments should be found not out of revenue.

1666. Then you say the £69 should not figure here?—Well, I do not think it should figure as what it is shown, as it was practically a general reserve.

1667. That is to come out there; we are agreed on one item, at any rate.—Personally, I do not mind whether it comes out, or whether it does not.

1668. I am asking you what you think about the principle of putting it in?—I am not sure what we have done with it.

1669. Do not treat the thing frivolously because it is a small amount; the principle is important. I am asking not because it is £69, but generally, because you have treated this depreciation of this investment in this way. It does not matter whether it is £69 or £62,000?—I really do not think depreciation of investments should come out of revenue, or should come out in Account No. 8. Obviously a big company does not always make losses on its investments; it makes a profit, and I would say that the profits so made should be used for any loss.

Lord Advocate: I think there is a little misapprehension about this. It is not realised depreciation, but it is a reserve for a contingency which might happen in the depreciation of the investments.

Solicitor-General: I quite agree. But the witness understood my question.

1670. *Mr. Jepson:* I want to put this to you, Mr. Cope. Another way of dealing with this £69 might have been to include it in one of the different reserves; not take it to revenue, but to include it in some of the reserves for 1913 which you found already in existence?—That is so. If I took it over, I should have credited it to one of my general reserves or to free reserve.

1671. On the question of principle—which is the point to which the *Solicitor-General* attaches importance—if it was a large amount (supposing, for example, it had been £6,900 instead of only £69), you would not have put it back into revenue, but you would have translated it and turned it into one of the reserves?—If it was an actual depreciation on investments, and I had charged it in Account 8, I should say that it clearly ought to come off the standard revenue; that is, if it was an actual depreciation which had occurred. If it was something possible or probable in the future, and which had not occurred, I should say that it was a free reserve.

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[Continued.]

Cross-examined by Sir DOUGLAS HOGG.

1672. In your evidence yesterday you will remember that you were dealing with your first items on page 1, the items of 1913 adjusted accounts. Do you remember that?—Yes.

1673. And you remember also that you were giving explanations to my learned friend Mr. Bruce Thomas as to why it was that you had made certain alterations in the figures shown in those accounts?—Yes.

1674. First of all there was the 4 per cent.?—Yes.

1675. That 4 per cent., as we know, was the reserve for a contingency which ultimately did not eventuate?—Yes.

1676. Secondly, there was an item with regard to the Penarth Railway Company, which was a mistake of the accountants who made up the accounts of that company. They failed to give credit for £9,000 which they ought to have given credit for?—Yes.

1677. So that I may take it that your view is that the 1913 accounts are conclusive against the users of the railway, but they may be corrected so long as the correction is in favour of the railway company. Is that right?—That was an obvious mistake. One company had taken it out and the other company had not put it in.

1678. It may have been obvious, but that only means that it was easy for you to find it out?—Yes; and as I had taken it off in the one case, I wanted to put it in in the other case.

1679. I agree that it is more difficult for the users of the railways to find out the mistakes than it is for the railway companies themselves; but do you suggest that that is a reason why the users of the railway should not be allowed the opportunity?—They are not all Penarth railway companies.

1680. No; some are bigger, and the items might be larger?—The larger companies, as I contend, do keep their accounts in a proper manner.

1681. Do you mean that in a larger company like yours the directors are infallible?—I do not say that.

1682. If they are fallible, they may have made mistakes?—Yes; everyone makes mistakes. Book-keeping is not an exact science.

1683. Everyone makes mistakes, unless he is a railway accountant?—No. Book-keeping is not an exact science.

1684. If he makes mistakes, they may be against the users of the railways?—They may be in favour of the users of the railways.

1685. I did not ask you that for the moment. They may be against the users of the railways?—Obviously.

1686. Obviously, yes. Do you suggest that a user of the railways ought to be compelled to accept accounts which in fact are wrong, merely because the mistakes have not been found out by the railway accountant?—I do not know. They are certified by the auditors, and to the best of our belief they are correct.

1687. That is what I say; merely because they were not found out by the auditors?—Yes; and not perpetrated by the accountants.

1688. They were perpetrated by whoever was the responsible railway official?—Yes.

1689. They were not perpetrated by the users of the railway?—No, I do not suggest that, and I hope you do not think I did suggest it.

1690. Now I want to ask you another question. It is perhaps a question that I ought to have put to Mr. Quirey, but I did not think of it at the time. I will try and get the answer from you, but if you cannot answer the question then Mr. Quirey will no doubt ponder over it. The Solicitor-General yesterday produced a document which is headed "Ministry of Transport. Railway Returns (Preliminary Statement)" and it is for the year 1923. It was handed to me, as you may remember, towards the end of my cross-examination of Mr. Quirey, and I had not seen it before. Have you seen it?—I do not think I have; but I may be able to answer your question.

1691. You had better have a copy of the document (same handed to the witness). It may be that you

cannot answer the question; and if you say so, I shall be content to take that as an answer; but I want to see if we can get it cleared up. It is a document which is similar in form to the document which was issued in the previous years by the Ministry of Transport?—Yes.

1692. With which you are familiar, I think?—Yes.

1693. If you open it up, you get the beginning of the figures under the heading: "1.—Financial Section"?—Yes.

1694. And it begins by setting out capital expenditure, does it not?—Yes.

1695. And it goes on to set out capital receipts, does it not?—Yes.

1696. And the receipts are divided under two headings. Do you observe that?—Yes.

1697. First of all it is: "Receipts:—from capital issued"?—Yes.

1698. And then the second one is: "From other sources"; that is to say, provided from some other sources than by the issue of capital?—I do not know what that means; I cannot explain it.

1699. Just look at your own railway, for instance, because I am sure that you are familiar with the figures for that. Do you see: "Group II (Great Western Railway)"? It says: "From capital issued." and then the figure for the year 1913 is £155,000,000; the figure for 1922 is £157,000,000, and for 1923 it is £160,000,000. You see those figures?—Yes.

1700. And then there is: "From other sources," and in the year 1913 the figure is £130,000 odd; in 1922 it is £43,000 odd; and the figure for 1923 is not given. Do you see that?—Yes.

1701. Can you throw any light upon what are the "other sources" there referred to, so far as your company is concerned?—If you cannot follow it, it does not matter?—I cannot follow it from the Great Western accounts that I have before me for the year 1922.

1702. I can quite understand that you may not be able to answer it if you have not seen the document before. Now, on the left-hand side you see it gives the totals for Great Britain. Do you observe that?—Yes.

1703. And I see from those figures that the Receipts:—"From other sources," in the total, amount to a very substantial sum. It is over £3,000,000 in the year 1913, and over £3,000,000 again in 1922?—Yes.

1704. So that apparently the Ministry, at any rate, when they classify capital receipts, divide them into two headings. One is capital issued; that would be raised from the public, of course. The other is capital from other sources; that is provided from some source other than the issue of capital?—Ought you not rather to get this information from the person who compiled the statistics, the Ministry of Transport?

1705. For the moment I was asking you about it as a railway accountant; but if you tell me that you do not know, then I think that is quite a fair answer?—I do not know how they have arrived at that figure. I am sorry.

1706. Very well. Then a little lower down you see some rather striking figures when you get to the balance sheet, taking the totals for Great Britain. Do you see that with regard to the "Superannuation and other Provident Funds," the figure has risen from £13,000,000 in 1913 to £34,000,000 in 1923?—Yes.

1707. And the "Liabilities accrued and Miscellaneous Accounts" has gone up from a little under £6,000,000 in 1913 to over £20,000,000 in 1923?—Yes.

1708. And the "Reserves and Depreciation Funds" has gone up from just over £20,000,000 to £21,000,000?—Yes.

1709. Those increases have taken place between those years; so that it would look as if the provision

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under all those accounts had been on a very much more generous scale in 1923 than was the practice in 1913?—I do not think that that proves that.

1710. You do not think so?—No. In those figures there are all the sums that we have received for arrears of maintenance, and obviously during the years of control we could not carry out a full year's work.

1711. How much of the arrears of maintenance would affect the Superannuation fund, for instance?—Nothing. I am talking of the £121,000,000.

1712. I was taking that as being the first of three to which I had called your attention. It has gone up from £13,000,000 to £34,000,000. That is the "Superannuation and other Provident Funds"?—Yes.

1713. Does not that look, at any rate, as if the appropriation in respect of those funds had been on a much more generous scale in later years than was the practice in 1913?—I think it has been, so far as the Superannuation funds are concerned. You will remember that all the clerical staff were regraded in 1919, and their salaries being increased, it imposed a much greater burden on the Superannuation fund. But not one of those provisions for Superannuation funds is made, excepting under the advice of an actuary, who values the fund.

1714. Quite.—If I may speak for the Great Western Company, the fund was first valued in 1905 and a deficiency was disclosed, and we provided for that deficiency. Then in 1910 and every five years thereafter it has been valued again, and whatever the valuation discloses as to deficiency, the company is bound to set aside in order to provide for the ultimate liability.

1715. Is would look as if the deficiency has become much heavier in recent years?—That is a deficiency which has occurred since 1913. The fund was solvent in 1915, but the 1920 valuation discloses serious deficiencies owing to the improvement in the conditions of the clerical staff.

1716. Similarly there must have been a much more generous provision under what is called "Liabilities accrued and Miscellaneous Accounts," which, as you will see, went up from £6,000,000 to over £20,000,000. Of course, you received very large sums of money from the Government in 1922 and 1923, which you were able to dispose of?—Yes; in 1922 and 1923.

1717. There was some in 1922 and some in 1923?—That is right. It was 1921 and 1922.

1718. At any rate, it looks as if the opportunity had been taken to tuck away as much as you could of that money into your various funds?—I do not think that that is quite a true description of it. So far as the Government compensation received by the Great Western Company is concerned, that was only broken up and put to the funds that required it, under expert advice.

1719. I am sure that you have had very competent expert advice?—Yes; we had competent expert advice; and the balance that was free was credited to a reserve for contingencies. That was £2,350,000.

1720. I do not want to go unduly into your figures, because I am rather taking the matter broadly; but how much of the £60,000,000 came to the Great Western Company and its constituent companies?—Perhaps 10½ millions.

1721. How much was distributed?—Perhaps £800,000.

1722. Practically the whole of it went into various funds?—There was a difference in the case of renewals not carried out during the war, and our expert advisers said that those funds ought to be strengthened to carry out the work, and those funds were strengthened.

1723. Did you build up any hidden reserves, in the same way as you did with the 4 per cent.?—No; we disclosed the lot.

1724. Have you got other hidden reserves besides the 4 per cent.?—What do you call a "hidden reserve"?—

1725. I call a hidden reserve a reserve that does not appear on the face of the balance sheet?—Everything for which we have no heading under the accounts system of the Act of 1911 we have to put under one of those headings as a hidden reserve.

1726. Let us take an example, because you gave us a very good one yourself in the 4 per cent. I gather that what you did with the 4 per cent. was this—you know what I am speaking of, do you not?—Yes.

1727. What you did with it was to deduct from your actual receipts as much as represented the 4 per cent.?—Yes; our estimate of the liability.

1728. So much as represented the 4 per cent.?—Yes.

1729. And you therefore showed in your account, as the sums which you had received, less than you had actually received?—I do not know that we had received them. Some paid under protest and some would not pay at all.

1730. You showed the sums in the balance-sheet, by so much as you had received of the 4 per cent., less than the actual receipts?—In the No. 10 account we showed the amount that had been brought to the credit by the stations for the whole thing, and we took from that sum the amount of our liability for the advance.

1731. Then is the answer to my question, "Yes"?—I do not quite know what it is you are asking me.

1732. I will put it to you again, because I want an answer, Yes or No?—And I will give it to you if I can.

1733. You can give me an answer either Yes or No if you like to apply your mind to it. The question is this: So that the amount which you showed as receipts in the balance-sheet was less than the amount which you had actually received, by the amount of 4 per cent. which you had received?—I think we are rather at cross purposes. There are no receipts in the balance-sheet.

1734. You mean no traffic receipts?—Not in the balance-sheet. They are in Statement of Account No. 10.

1735. You are quite right. The balance-sheet is the summarised result of the previous accounts; or it should be?—Of the balances.

1736. The balances shown in the previous accounts?—Yes.

1737. Therefore the balance that you bring into the balance-sheet from your working accounts should represent the difference between your receipts and your expenditure?—Yes.

1738. In fact, the receipts which you show in your working account—which was No. 10, was it not?—Yes.

1739. —were less than the amount which you had actually received by the amount of the 4 per cent.?—I would not like to say that it was less by the actual amount received.

1740. Well, it was less by at least the amount you received; but possibly by more?—No; you see, the revenue of the company, so far as merchandise is concerned, may not be received for two months after the last day of the month in which the transaction occurs.

1741. You mean that you may give credit?—Yes; we give credit; so that it really was not received. But in so far as the revenue brought to account at the station is concerned, we reduced that revenue by £75,000.

1742. Which was the estimated amount of the 4 per cent.?—Yes.

1743. Then I think that "Yes" would have been a shorter answer.

Lord Advocate: Would it have been quite accurate? 1744. *Sir Douglas Haig:* At any rate, you observe that quite apart from any question of what headings appear in the accounts, you can create hidden reserves in your accounts by showing the sums which you have received as being less than they actually are?—That is obvious.

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[Continued.]

1745. And there are no doubt other ways, as for example by showing your expenditure as being more than it actually is?—I wish you would show me that.

1746. Unfortunately at the present time we have not the opportunity. There may be other ways of treating hidden reserves?—Obviously, if you overstate your expenditure or understate your receipts you create something.

1747. You create a hidden reserve?—It may be a hidden reserve, or something of the kind.

1748. Obviously. And the amount of the hidden reserve can easily be varied without anybody who sees the accounts seeing anything about it?—What would the auditors say?

1749. They passed it before, in the case of the 4 per cent.?—You have to prove that you have a genuine liability.

1750. So far as the persons who have access to the published accounts are concerned, they would be left in the dark?—They would not know.

1751. It is only by investigating the accounts that one can know what hidden reserves were created in 1913 or 1923, or 1924 or 1925 for that matter?—Yes, if you suggest that there are such things.

1752. That is one of the things that we hope to investigate. I have asked you about the "provided." There is one item which I understand you were going to give us some little detail about, but unless I have missed it, you have not dealt with it. That is, the sum of £355,306 which appears under 58 (1) (a), with regard to Fishguard expenditure. Do you know the item that I am referring to?—Yes, I know it.

1753. I had rather understood—but perhaps I misunderstood—that you were the witness who was going to explain that?—Yes.

1754. You have not explained it, have you?—No. 1755. Before I cross-examine you about it, may I ask you, as if I were examining you in chief, what is the explanation?—The explanation of that item is that under the arrangements with the Government we were allowed interest on certain capital expenditure by the Fishguard Company. That interest was given to us, and it is claimed under 58 (1) (a). The Great Western Company are under a statutory obligation to find the money for the Fishguard Company. The revenue for it appears in "other sources of revenue" in the Great Western Company's accounts.

1756. I am not following you. This is an item of £355,306?—Yes.

1757. And it is an item which I gather is a capital expenditure in fact made by the Fishguard Company?—Yes, and for which the Great Western Company are responsible.

1758. You mean that the Great Western Company have guaranteed to the Fishguard Company that they should receive a certain sum of interest. Is that it?—No; they are responsible to find all the capital on the English side, under Statute.

1759. I want to understand it. Do you mean that there is a statutory obligation on the Great Western Company to lend money to the Fishguard Company?—Yes. You will find it in the Great Western Company's accounts.

1760. Will you just show me where?—It is account No. 4 on page 3 of the large book.

1761. "Lives jointly owned"?—No. It is on the expenditure side of the capital account, and it is the last item.

1762. "Subscriptions to other Companies"; is that it?—Yes. You will see a figure there of £1,820,779.

1763. Those are moneys subscribed for the shares of other companies?—Yes, under Parliamentary sanction and authority.

1764. That is to say that the Great Western Company have invested money in taking up shares in this company?—Yes, and they have got security for the money.

1765. I do not quite follow it yet?—Look at the next account.

1766. If you take up shares, you get shares. You invest money in the shares of the company?—Yes.

1767. Is that what you mean by getting security?—Yes.

1768. Then the Great Western Railway Company have become shareholders to the extent of £355,300 in a company called the Fishguard Company?—Where do you get that from? Will you look at the details lower down, in No. 4 (a), item 5, "Fishguard and Rosslare Railways and Harbours, £766,500. The security we have got for it is 3½ per cent. guaranteed debenture stock.

1769. Yes?—Then there is another item of £500,000, and we have got £10 Guaranteed Ordinary Shares for that.

1770. I see. Then does that mean that you have subscribed—I do not know at what rate—for 50,000 Guaranteed Ordinary shares of £10 each, and £766,500 worth of 3½ per cent. Debentures?—Yes.

1771. And which of that is represented by this £355,306?—We have got no security for that yet.

1772. Then that is not in these items?—No, but we have advanced the money to them.

1773. You mean that you have lent money to this company?—Yes.

1774. I had misunderstood it. I thought you said that it was a statutory investment?—So it is.

1775. You have lent money to this company. At what rate of interest have you lent it?—I really could not tell you that. We shall get security for it ultimately, and it will bear what the undertaking will afford.

1776. That again I do not quite understand. When you speak of getting security for it, do you mean that it will be turned into an investment in shares or debentures of this company?—Yes.

1777. At a rate which is not yet determined?—It may be Ordinary Stock, and there is no rate for that.

1778. It might be anything?—It might be 3½ per cent. Preference Stock.

1779. Is there any arrangement as to its being turned into debentures or ordinary shares?—Not yet, but—

1780. Do not be a prophet because that is always dangerous. At present is there any bargain other than a bargain that the Great Western Company is to lend this amount of money to the Fishguard and Rosslare Railways and Harbours?—They are bound to lend it under the Statute.

1781. There is a statutory obligation to lend—how much? Anything that they ask for?—Anything in connection with the expenditure of the Fishguard Company on this side.

1782. No doubt that appears in some private Act, does it?—Yes.

1783. Can you give me the reference?—There are several Acts.

1784. There are not several Acts which compel the Great Western Company to find this £355,000, are there?—No.

1785. Can you give me the reference to the section?—I cannot give it to you now, but I will give it to you.

1786. You can procure it for us?—Yes; I will give you the reference to all the Acts. They are the Fishguard and Rosslare Harbour Acts.

1787. *Mr. Jesson*: If you look on the first page of the Great Western accounts in the large book, I think you will find at the bottom of the page that there are the Fishguard and Rosslare Railways and Harbours Acts of various years, and the amounts that the Great Western Company are authorised to provide?—Yes, you have got it there.

Sir Douglas Hogg: Unfortunately that does not answer my question, Sir, because it is only provides for certain issues of debenture stock and Ordinary Shares. This at present is an unsecured loan which, according to Mr. Cope, the Great Western Company are under a statutory obligation to advance. I was asking him to give me the section of the Act under which there was the statutory duty of lending money to this company.

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Witness: It is probably under (b) that we have got the authority. It is the last line but one of the amounts that we are authorised to provide. "Fishguard and Rosslare Railways and Harbours 34 per cent. Guaranteed Preference Stock." I think that is what we should have to get.

1788. That is apparently 34 per cent. Guaranteed Preference Stock, upon which you are authorised to guarantee the dividends?—Yes, that is so.

1789. It is not—on the face of it at any rate—any statutory authority to you to lend money to the company, still less is it a statutory obligation to lend money; but it is a statutory power to guarantee the dividends on certain stocks?—Yes; that is so.

1790. That is why I asked you if you would refer me to the section of the Act, whatever it is, under which you say that you are under statutory obligation to lend this money. I dare say you are quite right about it, but I should like to have a reference to the section?—You shall have it to-morrow.

1791. Very well; then I will defer any questions about it until I see what it says. Now I pass to the next thing that I want to ask you about, and it is a matter with regard to which you gave us some evidence. It is under 58 (1) (b). You told us—and I am sure you are right—that the method which you had adopted was (if I understood you rightly) to take the capital account as in 1913, and then to take it after the amalgamation as at the 31st December, 1923; then, to compare the two, deduct from the difference the amount under 58 (1) (a), and thus get your 58 (1) (b) figure. Is that right?—Yes; such part of the 58 (1) (a) as was expended after the 1st January, 1913. Not the whole of it.

1792. Yes. And then you get your 58 (1) (b) figure?—Yes, that is right.

1793. I am sure that that is so, but it is a little difficult to follow it in your details. For instance, you gave us as one illustration of an amount which you have given us credit for, the sum of £69,000.—Yes.

1794. That sum represented certain funded interests of the Brecon Railway. Do you remember that?—Yes.

1795. I should like to see where that is shown as a credit in these details in this book. I could not identify it?—No; you would not be able to identify it, I think. It is included in the £909,214 that is credited on page 9 at the foot of the page.

1796. That lump sum of "less credits" includes this among other items. Is that right?—Yes, that is so.

1797. I am not going to argue about what is the right way of getting at the capital; I only wanted to find out where that money was. Now there is just one other question about 58 (1) (b), arising out of an answer which you gave to my learned friend the Solicitor-General. You will remember that he asked you whether, when moneys were changed from investments into capital expenditure, or into railway works, there was an enhancement of the value of the undertaking. Do you remember his asking you that question?—Yes, I think I do.

1798. And your reply was that there must have been an enhancement of the value of the undertaking because the directors of the Great Western Company would never undertake any work unless it was going to enhance the value of the undertaking?—I do not think I put it quite as high as that. I did not intend to put it so high.

1799. I wanted to give you an opportunity of correcting it.—Expenditure must enhance the value of the undertaking, I think.

1800. Because?—The directors obviously would not authorise expenditure to be incurred unless they were under the strong belief that that expenditure must enhance the value of the undertaking.

1801. Then I do not think I misrepresented you very much. The reason that you give is because otherwise the Directors would not have authorised the work?—No. They are business men, and they only authorise work that is going to improve the undertaking, surely.

1802. Unlike other business men, they never make mistakes?—Yes, they make mistakes. We all make mistakes.

1803. In the event in which they made mistakes, perhaps it would not have enhanced the value of the undertaking?—I think it would. If you look at the revenue 20 years ago and compare it with to-day, there must have been a product of the expenditure which they have put into the concern.

1804. In fact the greater part of the expenditure was not by the present directorate of the Great Western Railway Company, but by the directors of the various constituent companies, was it not?—I should think not. I should think that the Great Western Company is the dominant unit of the Group, and the greater part of the expenditure has been incurred by the Great Western Company.

1805. But a great amount has been incurred by other authorities?—By the Dock Authorities in Wales, perhaps.

1806. And they also, I suppose, would not have done it unless it was going to enhance the value of the railway, and so it must have enhanced the value?—Everything cannot enhance the value of the undertaking; but on the average they do, and I should say that as far as the works authorised by the directors are concerned a great proportion of them do enhance the value of the undertaking.

1807. The proportion depending upon the skill and the good luck of the particular directorate. That is right, is it not?—I would not like to say that.

1808. Now, there is another question I want to ask you about it. The average yield which the railway stocks produce is apparently a little over 4½ per cent.?—Yes; it is 4½ up to 4½, I think. 4½ was another year.

1809. I do not know whether the Great Western Company is above or below the average?—I really do not know. That is the Ministry of Transport's document and not the Great Western Company's document.

1810. The Great Western Company seems to be one of the good ones?—Yes, I think it is.

1811. They gave 4½ per cent.?—Yes; I think it is quite a good undertaking.

1812. Now, let us think. Supposing that the Great Western Company's directors have some stock, shall we say War Loan, which brings in 5 per cent. Do you follow?—Yes.

1813. Supposing that they think that their business is that of running a railway and not that of investing money, they might very well sell that War Loan and use the money for improving their railway?—Temporarily.

1814. On an average, they would get 4½ per cent. on the money that they expended on the railway, when it became fully remunerative?—Possibly they might, or they might get more. They might get 10 per cent. on that.

1815. They might get nothing?—Yes.

1816. I said that on an average, and speaking roughly, it would be 4½ per cent. in the case of the Great Western Company. The net result, so far as money is concerned, would be that you would not be getting quite so much yield on that money, even when it became fully remunerative, as when it was invested in securities?—That is the effect of that, certainly.

1817. Therefore, if the securities form part of the undertaking, the value of the undertaking would be slightly less, and not more; because, looking at it as a revenue-producing instrument, instead of getting 5 per cent. on your £1,000,000 War Loan, which would bring you in £50,000, you would be getting 4½ per cent. on your railway works, which would bring you in £45,000 when it became fully remunerative. The net result of that would be that, so far as the undertaking as a whole was concerned, it would be earning £1,000 a year less. Do you follow?—That would apply if you raised securities and paid 7 per cent. for them.

1818. Still let us follow. I am obliged to you for suggesting that. In a case where you raise

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securities, unless and until you had raised the money, it would be producing nothing for you, because you would not have got it. If, instead of changing your £1,000,000 invested in War Loan into £1,000,000 invested in railway stock—for example—you had kept your £1,000,000 in War Loan, then you would go on getting your £50,000 a year from that. Then suppose that you raise from the public your £1,000,000 for the stock, you would get £49,000 a year more in your net revenue than you were getting before?—Yes.

1819. Because you would still have the £50,000, and you would have the £49,000 in addition?—Yes.

1820. But when you do it by this method, you get, in your net revenue, £1,000 a year less?—That may be so.

1821. Now just follow this: It would be reasonable, of course, if you raised the £1,000,000 from the public, and therefore had to pay either dividends on shares or interest on debentures in respect of that?—At 6 per cent.

1822. —that you should have the standard revenue raised, would it not? It would obviously be so, would it not?—Yes. It seems to me that, if your argument is right, we can never enhance the value of the undertaking by capital expenditure.

1823. Oh, yes, sometimes you might?—But practically, on the average, we cannot, according to you.

1824. I do not want to argue about it. Just follow out my question, if you will. That would be quite obviously fair, would it not? If the Great Western Company, for example, raised £1,000,000 on debentures we will say, and invested it in a railway undertaking it would bring in £49,000 a year additional net revenue; and it would be fair that the standard revenue should be correspondingly increased, because otherwise the charges in respect of the debentures would be increased, or their liability for dividend would be increased, the ranking share capital would be increased, and they would not have any increased revenue allowed to them to compensate for it. That is obvious, is it not?—Yes.

1825. Whereas on the other hand, when they have got the money transferred merely from War Loan investment into a railway investment, there is no reason why they should be given a higher standard revenue when they have got the money in railways than when they have got it in War Loan?—There might be.

1826. You will suggest it if you can?—I should suggest that the income from War Loan ought never to have been credited to the trader. It is the income from the free reserves, and it ought to be the property of the company.

1827. I want to get your view about it. In your view the income from investment?—From free reserves.

1828. —ought not to come into account at all in calculating the receipts of the company?—From free reserves.

1829. And it is only on that basis that you can justify this claim to treat moneys in the free reserves as additional capital provided for the purpose of 58 (1) (b)?—No.

1830. Can you give any other basis for it?—That the work does enhance the value of the undertaking; the expenditure does enhance the value of the undertaking.

1831. Can you tell me why you say so in the case that I have just given to you of a change of an investment from a 5 per cent. investment in securities to a 4.9 per cent. investment in railways. How is the undertaking, regarded as a whole, enhanced in value?—I think you are dragging me into questions of law, rather than fact.

1832. If you do not want to give me an answer I will pass from it. My learned friend, Mr. Wrottesley, thinks that we have not got it quite clear about Fishguard. You are asking the users of the railway to include an allowance in respect of the moneys which you have so advanced to the Fishguard company, are you not?—Yes; it was given to us by the Government under 58 (1) (a). We have got it.

1833. You are, in fact, asking us to do that?—Yes, we ask you to continue the Government allowance under 58 (1) (a).

1834. I thought it was clear, but I just wanted to get it from you again. Now there is one other question which perhaps I ought to have asked you with regard to what you were just telling me, before I pass on to 58 (1) (c), although it is perhaps a sort of half-way house between the two. In your arbitrary formula you have taken a period of 15 years as being the period in which capital expenditure becomes fully remunerative?—Yes.

1835. If, therefore, 4.9 per cent. is the average return which you may ultimately expect from your investment in a railway, the moneys invested between 1913 and 1923 would be bringing in something substantially less than 4.9 per cent., would they not?—I do not follow that.

1836. I am sorry. Let me try again; I think you have said that under your arbitrary formula you allow 1½ per cent. for the first year and ½ per cent. per half-year thereafter?—Yes, that is right.

1837. If, therefore, we go back to our £1,000,000 of 5 per cent. War Loan, the result of the change of investment by your prudent directors would be that instead of getting £50,000 for the first year, you would be getting £15,000?—Probably.

1838. And in the next year you would be getting ½ per cent. on £1,000,000?—It might develop at once.

1839. It might take 15 or 20 years. If your formula has any pretensions to accuracy, then on the average that is what you would expect to happen, is it not?—Yes, that is right.

1840. So that it would not be for 15 years that it would have got up to the same yield as the company was getting when they sold their War Loan?—Probably.

1841. And yet you say that in your view the value of the undertaking is enhanced before the capital has become remunerative?—Yes. As I told you before, I consider that you are taking me into legal questions, which I think should be argued by Counsel.

1842. Now I pass to 58 (1) (c). I am not going back upon what I asked Mr. Quirey about its being purely an arbitrary formula; but I want to ask you about one item which those instructing me do not quite understand. Will you turn to page 12. I am taking this as an illustration only, because I do not pretend to be going into your figures in the way of anything else than illustrations of the points at the present time. The last item but one on page 12 is "Vale of Rheidol Railway—Construction of Railway. December, 1902: £69,267" ?—Yes.

1843. That is the total cost of building that railway in 1902, is it not?—Yes.

1844. The Vale of Rheidol Railway is not one of the railways which you directly amalgamated with your own railway, is it?—What do you mean by "directly" ?

1845. What happened was this, was it not, that another railway, the Cambrian Railway, bought the Vale of Rheidol Railway, did they not?—Yes, on the 1st January, 1913.

1846. Did they buy it for £12,000?—I do not know.

1847. I gave you the wrong figure. Was it £27,000?—I will take it from you.

1848. At any rate, it was £40,000 less than the £69,000?—Yes.

1849. So that, apparently, after 11 years, the capital of £69,000 had so far been lost that the whole undertaking was sold for £27,000?—All railway undertakings had much depreciated in 1913.

1850. What is true of the Vale of Rheidol Railway is true of most of these investments, is it, that they had much depreciated by 1913?—Yes; if you take the price of such Stocks in 1892, and take it again in 1913, you will see that there is a very great diminution. If you take it from 1902, when this railway was built, down to 1913, you will see that there was a steady fall in all railway securities, and in Consols as well.

1851. That makes my point much more important than I had realised. I have the exact figure now, I

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think; it is on page 41 of the big volume of accounts, under the heading "Cambrian Company." The first account on that page is, "No. 5—Details of Capital Expenditure for the year ended 31st December, 1913." Then it says: "Purchase of Railways—Vale of Rheidol, £27,711;" so that, the railway having been built at a cost of £69,000 in 1902, it was sold out-and-out for £27,000 in January, 1913?—Is your figure quite right?

1852. I was reading it from these accounts.—Look at the next line.

1853. "Purchase of Railways. Vale of Rheidol, £27,711."—And the next line.

1854. "Vale of Rheidol. Balance." What does that mean?—I do not know.

1855. That means the loss since they bought it, I suppose?—I do not know what it means; but there is another figure, making it £29,000.

1856. There is what is called "Vale of Rheidol. Balance: £1,354"?—Yes.

1857. I took the purchase price, as I thought that that was the right thing to compare with the construction price. Do you agree?—Yes; but evidently the Cambrian Company thought it was worth while buying it.

1858. Evidently they thought it was worth while buying it at £27,000; but it does not follow that it would have been worth while for them to have bought it for £69,000?—They looked forward to an improvement in the value of the undertaking, surely.

1859. That is as may be. Apparently that balance represents the loss on the undertaking, and so it would look as if it was not a very profitable investment when they bought it. What do you think that the sum of £1,354, to which you have called attention, represents?—I have not the faintest idea.

1860. There is nobody else that I can ask about it. May I suggest—although not on instructions—that it probably was the loss on working?—It may have been.

1861. You cannot give a more plausible excuse?—I do not know what it is.

Mr. Locket: It may have been compensation to the Directors.

Sir Douglas Hogg: That is possible.

Witness: I do not think that would have been charged to capital.

1862. Sir Douglas Hogg: At any rate, whether it is £27,000 or whether it is £29,000, it is equally good for the purpose of illustrating my point. You tell me that that is typical of what happened in the railway world during the years before 1913, that there had been a general diminution in the value of railway undertakings?—Railway securities.

1863. This is the railway itself, bought out-and-out?—Yes; and their securities had probably gone with the rest.

1864. A railway which cost £69,000 was not worth more than £29,000, or at any rate would not fetch more than £29,000 11 years later?—Yes.

1865. And that is fairly typical, is it?—It is typical of the circumstances that have prevailed in England between 1900 and 1913. Government securities and everything went down.

1866. So that, if that is a fair representation?—It is the value of money.

1867. —if that is a fair representation, then it would appear that most of the money invested in railway works between 1902 and 1913 had largely depreciated by 1913?—The net income of the railways was much greater, but the value of the securities, owing to the fall in the value of the sovereign, had gone down.

1868. This is the value of a railway, as opposed to securities, you see. I want to keep off the Stock Exchange, because it is a dangerous place for people to plunge into—at any rate, lawyers. Let us keep to the concrete thing, the railway. That is a thing which cost £69,000?—Yes.

1869. That would be for the lines, permanent way, stations, and so on?—Lock, stock and barrel.

1870. Yes, lock, stock and barrel; and a thing which cost £69,000 to build in 1902 would not fetch more than £29,000 in 1913?—That is the case.

1871. You say that that is a typical thing?—I say that all railway securities depreciated.

1872. The thing which you amalgamated, the constituent company, is the Cambrian Railway, is it not?—Yes.

1873. There is no Vale of Rheidol Railway which was amalgamated under the 1921 Act?—No, the Vale of Rheidol Railway was not mentioned; it was already absorbed.

1874. It had disappeared?—Yes, it had disappeared.

1875. And the entity which you amalgamated was the Cambrian Railway?—Yes, the Cambrian Railway.

1876. All that the Cambrian Railway ever spent on this line was £29,000?—How do you get that?

1877. It was £29,065 12s. 5d. I get it from your figures.—They might have spent a lot of money on it between that and 1923.

1878. Then you would have brought that in, would you not, under 58 (1) (b)?—Yes, probably.

1879. So that we need not bother about that now?—No.

1880. As far as this claim is concerned, all that the Cambrian Railway ever spent on the Vale of Rheidol Railway was £29,065 12s. 5d.?—True.

1881. Do you think that it is quite fair to ask the users of the railway to pay for the enhanced value of the undertaking a sum calculated upon the £69,000, which includes the £40,000 which has been lost?—Yes, I think the £69,000 will ultimately be fully remunerative. It is a fine little railway.

1882. How many years do you think it will be before it is fully remunerative?—Under Great Western management, very few years.

1883. That is the directors again, is it?—No, it is the officers this time.

1884. It is not the accountants, is it?—No.

1885. Mr. Jepson: On page 53 of this book there are the Vale of Rheidol accounts for the first half-year, and I think that explains the £1,354. It shows that they had spent £69,267 on capital account and had only received £67,912?—That balance is the balance on capital account.

1886. Capital expended, but not raised?—Yes.

Sir Douglas Hogg: I am much obliged. That explains the figure of £1,354. At any rate, whether it is £29,000 or £27,000 makes no difference to the point that I am upon for the moment. Are there any other cases like that?—I am not aware of them. I would tell you if I was.

1887. You do not know, one way or the other. You have not looked to see?—No.

1888. At any rate, under the formula which you have adopted, a thing like that would make no difference, I suppose?—How do you mean?

1889. It makes no difference to your formula if in fact between 1902 and 1917, which is 15 years, two-thirds of the capital had been lost, or had disappeared?—No, the capital expenditure still remains.

1890. And you still claim 5 per cent. on the original capital expenditure?—Yes; it is taken on the average.

1891. That is a good illustration of how the formula works in practice?—Will you take the next item?

1892. Where?—The Great Western and Great Central Joint Committee.

1893. I shall be delighted to take it. Where is it?—On page 12.

1894. Yes: "Great Western and Great Central Joint Committee; Great Western proportion (one-half)." Will you tell me what that means, if you want me to deal with it?—That line is earning 13 per cent. to-day.

1895. What does it mean?—Half of the capital was found by the Great Western Company, in respect of the Great Western and Great Central Joint Committee undertaking, which was opened throughout in 1906.

1896. Is it some line that links up the Great Western and the Great Central?—Yes; there is a

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joint line running between the Great Western at either end and the Great Central at either end.

1897. Do you mean that it joins up the two systems?

—You said that it joined up with the Great Western and the Great Central; so it does, at both ends.

1898. Do you say that it was a very profitable investment?—I say that it is earning 13 per cent. to-day.

1899. How much was it earning 10 years ago?—Perhaps 5 or 6 per cent.

1900. It had already reached 5 per cent., which is the average of railway remuneration, as long ago as 1913?—Yes; in seven years it had reached that.

1901. In seven years?—Yes; and to-day it is earning 13 per cent.

1902. Is it going to earn even more?—Yes, I think so.

1903. That will depend upon what rates you are allowed to charge?—Obviously, if we cannot get a reasonable rate we shall not earn the money.

1904. If you get leave to charge the rates that you are asking for, you may earn no money at all, because you may kill the traffic.—I do not think it will pay our expenditure.

1905. I suggest it would not pay your expenditure. Indeed, even with the rates which you are charging now, it is the fact, is it not, that your traffic has gone down since 1913. You are carrying less passengers and less goods, owing to the increase of your rates?—I do not agree with that. I do not think you are right.

1906. Is it not so? Again I was only asking from this document which I may have quite misunderstood. Just look at the document; you have it there. Turn to the Statistical Section, will you?—I am not responsible for this document.

1907. I quite appreciate that. If you turn to the statistical section you see—excluding the London Tubes and the Metropolitan-District Railway, with which we are not concerned—the total passenger traffic on the left-hand side of the lower half of the second page. Have you the heading "Passenger Traffic"?—Yes.

1908. You see that in 1913 the railways, excluding the Tubes, carried 1,002,693,874 passengers. Will you look and see what they did in 1923—1,000,741,000; 2,000,000 down.—Where do you get this? I do not follow it. For 1913, as I have it here, the total passenger traffic was 1,199,203,521.

1909. That is including the Tubes, with which we are not concerned. Look at the next item, which does not include the Tubes?—Yes, I have it now.

1910. The total was 1,002,000,000 as against 1,000,000,000; 2,000,000 down?—Yes.

Lord Advocate: The season tickets are up very much.

Sir Douglas Hogg: Yes, my friend is right.

Lord Advocate: That may mean a great many journeys.

Witness: There is a very great increase in season tickets.

1911. *Sir Douglas Hogg:* Now look at the Goods, Mineral and Livestock traffic, 1913, 364,000,000 tons (I suppose it is), and 1923, 343,000,000 tons nearly; 22,000,000 tons down?—Yes.

1912. Do not those figures make you think a little still as to the wisdom of asking for too high charges?—So far, I can only speak for the Great Western.

1913. It does not make them think?—I should say that we have got a better revenue than we had in 1913 after allowing for the fifty.

1914. You think you have already a better revenue?—We have not this year. No company has this year.

1915. They are all charging so much more, are not they?—No. It is due to the strikes—the labour troubles.

1916. I will take the Solicitor-General's evidence if he will give it on oath?—There undoubtedly is a decrease in the tonnage carried.

1917. I wonder, when the rates are fixed, whether there is to be a revision on a change of Government. Perhaps that shows the wisdom of Parliament in saying that the rates were only going to be fixed as far as practicable?—You cannot fix them to yield the exact pound.

1918. You might find it was impracticable, having regard to the state of trade, to charge so much?—Then how are we going to pay the increased costs put upon us by the Government?

1919. I do not want to argue with you. You mean that the railway companies might then take a share of the burden which all the other sections of the community have borne since the war?—We did not get the profits those other sections of the community got during the war.

1920. But you got your profits during the war, and you are asking for something additional for ever after?—The Act gives it to us.

1921. As far as practicable. 1923 was undoubtedly a good year?—Undoubtedly.

1922. The highest net revenue you had ever had?—Yes, presumably so. So far as the Great Western is concerned, yes. They were reaping the result of the capital expenditure they had put into the concern for the previous 20 years.

(Adjourned till to-morrow at 10.30 a.m.)

APPENDIX.

J.Q. 2.

Handed in by Mr. Quirey.

CAPITAL EXPENDITURE ON WHICH INTEREST WAS CLAIMED AND NOT ALLOWED.

Name of Company.	Date of Claim.	Date of Expenditure.	Amount.	Nature of Work.	Reason for Disallowing.
Caledonian	1916	1892/4	£ 3,944	St. Rollox, Engine Shed.	Considered not to be for Engine Shed, but for dumping spoil from a widening opened in 1894. Not charged to Capital.
Glasgow and South Western.	1916	—	870	Remodelling College Goods Station.	To be limited to Stamp Duty on Capital raised and authorised for specific works.
Great Central	1914/17	—	791	Stamp Duty on Additional Capital.	Not charged to Capital.
Great Northern	—	1898/9	37	Parliamentary Expenses re Enfield and Sevenage Loop Line.	Not properly attributed thereto.
Great North of Scotland	—	1909/13	2,132	Stamp Duty on Additional Capital.	Works not brought into use up to end of 1915.
Hull and Barnsley ...	1916	—	2,464	Two 40-ton overhead travelling Cranes for additional erecting shop.	Not brought into use as shop taken over by Ministry of Munitions.
Isle of Wight Central ...	—	1914	314	15 Wagons purchased in part replacement of 50 Wagons sold.	Considered Company should make an allowance for vehicles replaced.
	—	1916	263	Stone Quarry... ..	Not brought wholly into use.
	—	1913	44	Cost of additional Sidings at Medina Wharf.	Represents the amount realised for materials originally charged but not used.
London and North Western.	—	June, 1913	1,009	Purchase of London Town Office, Islington.	Withdrawn.
London and South Western.	1916	—	660	Land for additional Station Accommodation at Brockenhurst.	Not specifically acquired for the purpose for which it is claimed to have been brought into use.
London, Brighton and South Coast.	—	1913	15,960	New Turbine Steamer "Paris."	Considered the Company should give credit for the cost of the old s.s. "Paris" as having been replaced by the new s.s. "Paris."
North Eastern	—	1920	2,388	Billingham Beck to Stockton Railway widening. Land and earthworks for a double line.	To be adjusted on a single line basis.
	—	1920	54,057	West Dunston Coal Shipping Staithes.	Disallowed. Not brought into use.

APPENDIX.

J.Q. 3

Handed in by Mr. Quirey.

CAPITAL EXPENDITURE ON WHICH INTEREST WAS CLAIMED AND NOT ALLOWED OWING TO SANCTION OF MINISTRY NOT HAVING BEEN ALLOWED.

Name of Company.	Date of Claim.	Date of Expenditure.	Amount.	Nature of Work.	Note.
Cheshire Lines Committee	1920	Prior to 1912	£ 14	Land for Siding connection.	Withdrawn.
Great North of Scotland	1920	—	1,394	Two 3rd Class Bogie Carriages Betterment, £1,394.	Withdrawn pending final settlement with Ministry of Transport.